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World Business Newspaper

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Italy launches sale of \$6bn stake in state oil group

By Andrew Hill in Milan

The Italian government yesterday took advantage of a lull in political tension to launch the L10,000bn (\$6.25bn) partial privatisation of Eni, one of the world's biggest oil and chemicals groups.

The treasury, which owns all Eni's shares, is planning to sell about 20 per cent of the company, starting on November 20, in what will be one of the largest stock market flotations ever.

In spite of continuing political uncertainty, the government set a price range of L5,250 to L6,000 a share, at the top end of expectations.

Mr Lamberto Dini's technocratic government narrowly survived a parliamentary no-confidence vote on Thursday, and it is understood that contingency plans were prepared for the Eni sale in case the government fell.

Mr Mario Draghi, director-general of the treasury, said yesterday: "We never thought of pulling the deal." The Government hopes the sell-off will be a people's privatisation.

Between 25 and 50 per cent of the shares available will go to retail investors, who will be encouraged to reserve stock ahead of the official pricing on November 15.

Israel set to agree deal on purchase of gas from Qatar

Qatar, Israel and US oil giant Enron will this weekend announce a breakthrough in talks on a multi-billion-dollar deal to supply Israel with natural gas from the Gulf state. The project is one of several big regional deals made possible by the developing Arab-Israeli peace. Page 22

Wells shares diver: Ordinary shares in German haircare group Wells plunged 13.3 per cent to DM890 after a blunt profits warning citing several problems, including "management error" in one of its foreign divisions. Page 6

Passenger ship in distress: A Nigerian ship with more than 500 people on board was close to sinking in deep waters off Liberia. Panic-stricken passengers were reported to have offloaded cars and heavy machinery to stop the ship listing. Page 6

Peugeot Citroën: The French carmaker, saw first-half profits surge almost 80 per cent to FF1.22bn (\$247.7m). Page 6

Britain awards TV licences: A group led by Pearson, owner of the Financial Times, won the licence to run Britain's fifth earth-based TV network. Two higher bids were rejected. Page 4

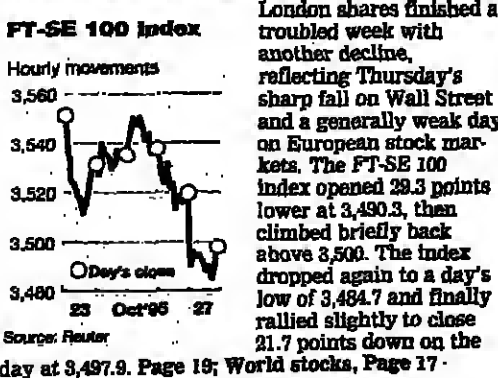
Spain cuts spending: Spain's cabinet agreed Ptas750bn (\$9bn) in spending cuts to help meet deficit targets after parliament's rejection this week of the 1996 budget. Page 2

Singapore graft cases: Chay Hon Tim, former deputy chief executive of Singapore's public utilities board, was charged over bribes totalling \$563,38n (\$544.37m) in the state's biggest corruption case. He faces a total of 28 charges.

Change planned for Chinese zones: Beijing plans to end preferential taxes and exemptions in its Special Economic Zones, which were set up to attract foreign investment. Bai Hiejia, deputy secretary general of the state planning commission, said the zones' task had been completed.

Fort Bragg shooting: A sniper killed one soldier and wounded 18 when he fired at troops doing early morning exercises at Fort Bragg, North Carolina. A fellow soldier was arrested.

London stocks down after difficult week: London shares finished a troubled week with another decline, reflecting Thursday's sharp fall on Wall Street and a generally weak day on European stock markets. The FT-SE 100 index opened 28.3 points lower at 3,490.3, then climbed briefly back above 3,500. The index dropped again to a day's low of 3,484.7 and finally rallied slightly to close 21.7 points down on the day at 3,497.9. Page 18; World stocks, Page 17.



NEWS: INTERNATIONAL

Berlusconi savaged in Roman political jungle

By Robert Graham in Rome

To console himself after failing to bring down the Dini government, Mr Silvio Berlusconi was heard to remark with some bitterness: "I'm like Snow White in a world where there are no fairy tales...The rules for running a business are not the same as those in politics."

Mr Berlusconi, former prime minister, leader of Italy's right-wing alliance and owner of three television channels that account for almost half the national audience, has yet to feel at home in the jungle of Roman politics.

This week the path to an early election on his terms was firmly blocked. A last minute tactical switch by the hardline remnants of the old Italian Communist Party defeated his no confidence motion brought

against the Dini government.

If Mr Berlusconi had won the vote, he would have forced the immediate resignation of Mr Lamberto Dini, the prime minister, with a snap general election in mid-December. As it is Mr Dini remains in office, at least until the end of the year, and will then probably head a caretaker government for elections in March.

Mr Dini's survival made for another good day for the lira and the Italian bond markets. In late trading on life, the December 10-year bond futures contract, drifted above 102.01, up 0.55. The lira closed against the D-Mark at 11.139 just ahead of Thursday's finish of 11.143.

Mr Berlusconi has now tried and failed on three occasions this year to force an early election. On each occasion he has listened to the hawks in his camp, who are those with the

least political experience.

The most striking aspect of Mr Berlusconi's behaviour is just how much he hates being a loser. Though successful in business (amassing a fortune and becoming proprietor of AC Milan, one of the world's top football teams) he still lacks the temperament of a politician able to take the rough with the smooth.

Nor has he managed to distinguish between his role as a politician and his position as owner of Fininvest, Italy's second largest private group.

Anti-trust legislation has been effectively blocked in parliament by his supporters on vital committees and his decision this summer to bring in foreign shareholders into his TV empire does not address the central issue of his continued control.

Indeed, the suspicion remains his political career is a means of protect-

ing his business interests - as well as his own person from the magistrates. Thus when this week he sought to accelerate elections, cynics interpreted he wanted to get the poll out of the way before he faced trial in mid-January on charges of alleged corruption while running Fininvest.

The unresolved conflict of interest, combined with his impending trial, casts serious doubt about his acceptability to run again for the premiership. These doubts are now heightened by his failure to unseat Mr Dini.

However, Mr Berlusconi's strength remains twofold - his effective ownership of the Forza Italia movement, whose organisation came from the ranks of Fininvest, and his nationwide appeal as a charismatic figure.

Within his right-wing alliance neither Mr Gianfranco Fini, leader of the right-wing National Alliance, nor

the small centrist groupings formed from the old Christian Democrats, can survive without the electoral mantle of Forza Italia. Nevertheless the difference between Mr Berlusconi being an asset or an embarrassment is finely balanced; and if he overplays his hand in opposing the 1996 budget in the coming weeks, he could push the moderates out of his camp.

Italy's constitutional court yesterday decided to accept two legal challenges lodged by Mr Filippo Mancuso, the minister of justice, whose sacking last week led to the tabling of the no confidence motion. The court's ruling did not examine the merits of Mr Mancuso's complaints. These will be considered within 20 days. However, the decision to accept the case means that the court believes the minister may have grounds to challenge the legality of his removal from office.

INTERNATIONAL NEWS DIGEST

Madrid plans budget cuts

Big public spending cuts next year were announced by Spain's Socialist government yesterday - in an attempt to bolster the peseta after parliament's rejection of its draft 1996 budget this week. The cuts, totalling Ptas750bn (\$6.3bn), removed fears that Spain might relax its efforts to meet the convergence criteria for entering the European monetary union.

It is the biggest domestic expenditure cut on record in Spain. The cuts are concentrated on public investment and transfers to state-owned companies, but will affect virtually all ministerial departments.

The draft budget was voted down by parliament after the Catalan nationalist party withdrew support for the government. But this had been expected and there was no immediate effect on the peseta.

This year's budget now will automatically be rolled over into next year, and the government has to introduce emergency measures by decree to cut the budget deficit. Its main challenge is to slash the deficit from 5.9 per cent of gross domestic product to 4.4 per cent, while funding increased debt servicing charges and inflation-indexed pensions and civil service salaries.

It expects the cuts announced yesterday to offset these increases and to keep overall spending at the Ptas7,315bn level written into this year's budget. *Tom Burns, Madrid*

Germans cautioned on Emu

Mr Alexandre Lamfalussy, president of the European Monetary Institute - forerunner of the planned European central bank - ruffled German feathers yesterday by saying even Germany might have trouble meeting the debt criteria for European monetary union.

This is the first time he has singled out the budgetary difficulties of Germany, which has taken a tough line on the need for countries to adhere to the Emu criteria in the Maastricht treaty. He told a bankers' meeting in Munich: "Even Germany is in danger of being no longer able to meet the 60 per cent debt criteria."

Last year, Germany and Luxembourg were the only EU members to meet all Maastricht economic criteria. But German tax revenues have fallen and unemployment expenditure has risen this year, complicating efforts to keep the budget and borrowing under control.

Mr Theo Waigel, finance minister, was quick to assert that Germany's public debt would stay just below the required 60 per cent of gross domestic product in 1995 and 1996. He called on the 16 state finance ministers to join in a "stability pact" aimed at paving the way for further consolidation of the budget and meeting the convergence criteria.

Mr Waigel, speaking a day after the opposition boycotted a committee meeting called to discuss next year's budget, said the federal deficit this year, set at DM50bn (\$36bn), would amount to 2.9 per cent of GDP. Next year's deficit of DM59.9bn would be equal to 2.6 per cent of GDP. Both figures are below the 3 per cent criteria set by the Maastricht treaty.

Andrew Fisher, Frankfurt, and Judy Dempsey, Bonn

Jordan wins rating plaudits

Moody's Investors Service and Standard & Poor's, the international credit rating agencies, yesterday assigned credit ratings to the foreign currency debt of Jordan. Moody's assigned a Baa3 long-term rating to foreign currency debt, while S&P gave it a B+ foreign currency rating with a positive outlook, and a BBB- rating for local currency debt.

S&P said its rating was supported by "significant progress" in strengthening public finances, aided by fiscal reforms and external debt relief. "Cautious political liberalisation measures at home, combined with improving ties with its neighbours, have bolstered the kingdom's geopolitical position in the Middle East." While the Jordanian government has not issued any public international bonds, the government-owned telecommunications corporation recently issued a \$50m Eurobond, spearheading the country's efforts to raise international investor awareness of investment opportunities in Jordan, and to mobilise offshore funds of Jordanian expatriates. *Conner Middleman, London*

North Korean intruder shot

South Korean soldiers yesterday shot dead a North Korean infiltrator after a big manhunt. He had been on the run since a firefight in which another intruder was captured on Tuesday.

The two North Korean agents had been in South Korea since late August to gather intelligence and bring a long-time resident spy back to Pyongyang, according to the South Korean intelligence agency.

South Korea yesterday condemned a recent series of North Korean infiltration attempts, declaring they must stop immediately. Mr Rha Woon-ke, the national unification minister, accused Pyongyang of deliberately raising tensions to divert the attention of North Koreans from growing economic problems at home. *John Burton, Seoul*

Turks pave way for election

Turkey will go ahead with general elections on December 24, after parliament approved a new electoral law early yesterday.

The law implements amendments made to Turkey's constitution during the summer. These lower the voting age from 21 to 18, allow Turks living abroad to vote, and increase the number of MPs from 450 to 550.

Mrs Tansu Ciller, the caretaker prime minister, sought early elections after losing a parliamentary vote of confidence in her minority conservative government two weeks ago. But her plan to hold elections at such short notice is controversial and is being challenged in the courts. *John Burton, Ankara*

Brussels clears US bank deal

The European Commission said yesterday it had cleared the merger of Chemical Bank and Chase Manhattan of the US. The Commission vets mergers involving companies with operations in the 15-nation European Union regardless of their nationality, to see whether they are compatible with the EU's common market.

It said the primary effect of the merger would be on the US and international markets. It would not hinder competition in national or international markets. *Reuters, Brussels*

Markets hail Chirac's drive for austerity

By John Riddling in Paris

President Jacques Chirac's backing for two years of budget austerity and deficit reduction yesterday drew a positive response from the Bank of France and currency markets, but brought dismay from trade unions.

The French president's more aggressive stance, announced on television on Thursday night, was seen as an important policy statement, marking a shift from populist electoral promises. It appeared designed to set a clear course of action for the unpopular conservative government and to reassure financial markets.

Mr Jean-Claude Trichet, the central bank governor, said that Mr Chirac's stance removed uncertainty about policy and would bolster confidence in the French economy. Mr Jean Gandois, the head of the Patronat employers association, said he had been reassured by Mr Chirac's statements and predicted that interest rates would be cut within the coming weeks.

The Bank of France has been forced to raise interest rates to defend the French franc. Investors are sceptical about the

country's public sector deficits, forecast to reach 5 per cent of GDP this year and are concerned about a lack of direction in the conservative administration of Mr Alain Juppé, the Gaullist prime minister.

Mr Chirac's speech, which stressed his commitment to European monetary union, prompted a positive response in bond and currency markets. The French franc broke through the FF8.50 to the D-Mark level, gaining four centimes to trade at FF8.477 to the German currency.

"This was the first time that Chirac placed such priority on deficit cuts and signalled a clear choice between orthodox policies and his populist promises," said one economist in a reference to contradictory campaign pledges to cut taxes, deficits and unemployment simultaneously.

However, market observers stressed that they still needed convincing of the government's ability to achieve its objectives and expressed concern that austere policies could damage already slowing

economic growth. "The growth rate is a problem, and they must also show they are prepared to overcome tough opposition to reforms," said one currency economist.

Trade unions have struck against a public sector spending freeze and are opposed to measures to curb the FF80bn (\$7.7bn) social security deficit. Force Ouvrière, one of the largest union organisations, said it was dismayed by Mr Chirac's stance. "French society is being placed under the control of the financial markets," said Mr Marc Blondel, the union's leader.

Political parties were divided by Mr Chirac's stance. Liberal members of the parliamentary majority, many of whom have criticised the government's lack of progress on reforms, applauded his statements.

"He has clearly set a course for reform," said Mr Alain Madelin, the free-market finance minister who was forced to resign in August after clashing with Mr Juppé and trade unions.

But socialist opponents said it showed he had made false promises during the presidential campaign.



Chirac tough measures to put France on course for European monetary union

The nouveaux-riches are fleeing the town centres for extravagant homes in suburbia

Russian dream of suburban high-life

By Christia Freeland in Moscow

After the collapse of communism, western lions such as Big Macs, blue jeans and rock music swiftly became part of Russia's historically closed culture. Now, four years after the beginning of market reforms, Russia is beginning to adopt another defining feature of the American lifestyle: Russia is discovering suburbia.

Under Soviet rule, Russian cities were the ungainly creations of an all-powerful bureaucracy. On the outskirts of Moscow and dozens of other cities throughout the country, miles of indistinguishable high-rises suddenly gave way to fields or forests: the city ended according to the dictates of the central plan. In the centrally planned capital, status was measured by proximity to the Kremlin, with the elite living in the city centre and the less privileged relegated to the anonymous apartments on the periphery. Today this is starting to change.

As traffic clogs Moscow's once empty streets and urban crime, a rarity under the authoritarian communist regime, becomes common, Russia's nouveaux riches are following a pattern first established in the post-war US. The rich are fleeing the city centre and building their own suburbs.

"Living in the centre of the



One of Moscow's suburban settlements for the new Russians

city is not as prestigious as it used to be," says Ms Maria Tabashnikova, an analyst at the Moscow Central Realty Exchange, one of the city's biggest real estate agents. "The clear tendency is for offices to take over the centre and for people to move into single family dwellings on the outskirts of the city."

Ms Tabashnikova says the typical urban evils of traffic, pollution and crime are partly responsible for the exodus, but also attributes the departure from the city centre to a uniquely Russian problem.

As part of his grandiose effort to reshape the Russian capital, Mr Yuri Luzhkov, the mayor of Moscow, has launched an ambitious campaign to renovate downtown buildings. When an apartment building is targeted for a facelift under the mayor's programme everyone, even owners of private apartments, must move out.

"If your building comes under the mayor's programme you have no choice but to leave," Ms Tabashnikova says. "For this reason, many are trying to escape the downtown."

One of the most coveted places of refuge is an elite enclave 45 minutes from the centre of Moscow, tentatively named Goltysyno-3. On a 56ha plot of land Menapet, one of Russia's top 10 banks, is building extravagant brick homes for a carefully vetted group of customers.

Mr Konstantin Parshutov, manager of the project, says building a home in Goltysyno-3 costs at least \$80,000 and prices can run into millions. Only a tiny minority can afford this new Russian dream, but even those who have the money are not automatically guaranteed admittance to this Moscowite version of Arcadia.

"As you know, we have a criminal, gangster element emerging in Russia today," Mr

Parshutov says. "We investigate everyone who wants to live in our development and we do not let the criminals in. Our clients are financiers, businessmen, and they do not want to live next to mafiosi."

Instead, the chosen residents of Goltysyno-3 tend to be the more established members of the old nomenklatura who have succeeded in transforming their political power into wealth. The grandest home in the development is a 680 sq m brick fortress being built by a Russian oil baron. It includes a swimming pool, a two-car garage and a traditional Russian *banya* (sauna). Valentin, a 57-year-old former director of a Siberian metallurgical factory, is building a slightly more modest, 326 sq m brick rectangle of a house in another corner of the development.

"We decided to build ourselves a quiet, peaceful place so as not to be surrounded by the noise and dirt of the city,"

Valentin says. "Five years ago, we would never have been able to do this."

Like the oil baron - who forbids photographs to be taken of his mansion - Valentin is secretive almost to the point of paranoia. He was once a senior Russian government official and a powerful figure in Russian industry, but he asks that his name not be used.

"No one with wealth wants publicity today," he explains. "Valentin is sick and who knows, perhaps Zhirnovsky or some other maniac will be in charge of the country tomorrow."

Like the American middle class, whose flight to guarded suburban neighbourhoods has been accelerated by a growing fear of the impoverished and embittered residents of the inner cities, Russia's new suburbanites do not trust their compatriots. As parliamentary elections approach and the president's health wanes, Russia's new elite has begun to fear a popular backlash.

That sentiment may not be entirely misplaced. Gaps in the iron fences which enclose Goltysyno-3 reveal glimpses of the village of Goltysyno, the derelict remnants of an imperial Russian estate. While their new neighbours race past in Mitsubishi jeeps and Range Rovers, the peasant women of the old Goltysyno shuffle past in shabby felt boots carrying dripping buckets of water from the local well.

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هكذا من النحل

Roh Tae-woo admits taking \$650m gifts

By John Burton in Seoul

Mr Roh Tae-woo, South Korea's former president, disclosed yesterday that he had illegally collected W500bn (\$654m) in secret political donations during his term between 1988 and 1993.

The confession by Mr Roh, who offered an emotional apology in a televised statement from his home in Seoul, threatens to implicate other leading politicians.

In a startling admission, Mr Kim Dae-jung, the long-time opposition leader and foe of Mr Roh's military-backed government, said he had accepted a "gift" of W500bn from Mr Roh during the last presidential election in 1992.

"Giving money to both opponents and allies is a tradition in Korean politics to buy safety from any political vendettas," explained a former aide to Mr Roh.

In the 1992 campaign, Mr Kim stood against President

Kim Young-sam, who represented Mr Roh's ruling party.

The opposition leader accused President Kim, who has aggressively promoted an anti-corruption policy, of secretly accepting "hundreds of billions of Won" from Mr Roh in 1992 in violation of election financing laws.

Mr Roh revealed his secret political funds after prosecutors this week discovered almost W100bn hidden in domestic bank accounts linked to him.

Most of the money was collected from business groups and was used to pay for the ruling party's operating expenses and merit awards for bureaucrats, with W100bn still left in his bank accounts, Mr Roh said.

The Korean government may ask Switzerland to investigate allegations that Mr Roh also maintains a secret bank account there if evidence is uncovered to support the claim.

A contrite Mr Roh said he was willing to accept any punishment decided by the authorities and he assumed complete responsibility.

He urged the government not to prosecute businessmen implicated in the scandal because they "are working hard amid severe international competition".

Mr Roh suggested that businesses had been forced for decades to make donations to leading politicians because their support was needed in an economy dominated by heavy state intervention. "But I am totally accountable for failing to crack down on the wrongful practices of the past," he added.

The National Congress for New Politics, the main opposition party led by Mr Kim Dae-jung, criticised Mr Roh for failing to reveal details about how the funds were collected and who received them. Other opposition parties called for Mr Roh's immediate arrest.

'I used the metaphor of our space shuttle linking with their Mir spacecraft. And I said sudden movements are dangerous, and Yeltsin said *da*'

Once again President Boris Yeltsin of Russia sent shivers through Washington this week, first with an erratic performance after his summit with President Bill Clinton in New York and then by his admission to hospital back in Moscow.

In a White House interview on Thursday afternoon, Vice President Al Gore recalled a long conversation with the Russian president, ironically in a Moscow hospital, just after he had put the wind up the west in Budapest last year by warning of the potentially dire consequences of Nato expansion.

"I used the metaphor of our space shuttle linking with their Mir spacecraft and referred to the way their two orbits had to be brought into alignment. And I said sudden movements are dangerous and he said 'da' and picked up the metaphor."

Mr Gore, in fact, does a lot of the solid moving and shaking in US-Russian relations. The joint commission he heads with Mr Viktor Chernomyrdin, the Russian prime minister, has emerged as a wide-ranging problem-solving panel. Three times this month he has given domestic speeches devoted solely to the imperative of continued US engagement with Russia.

His Thursday theme was also both upbeat and cautionary. "Obstacles" should be seen, wherever possible, as "opportunities". Thus the practical difficulties of getting Russians to help enforce a settle-



ment in Bosnia had to be matched against "the fact that joint service in a peacekeeping mission would be remarkable" - for both countries.

Equally with Nato, "The process by which Nato's relationship to Russia is deepened and clarified and the process by which our relationship to Russia is deepened and clarified"

have to advance at the same time and, as they do, the relationship between those processes becomes much easier to resolve.

In this, Mr Gore says, "we intend no sudden movements", with "everything predictable, gradual and transparent". He did not think the Russian public or military now saw Nato as

a threat, nor would they if this steady policy was pursued.

His warnings were directed at US politicians more than their Russian counterparts. While declining to predict the outcome of Russian elections "will not always be what we like". But even the re-emergence of the Communist party should not cause us to over-react. He takes some consolation in the fact that the extreme nationalism represented by Mr Vladimir Zhirinovskiy has been "diluted".

The ability of the US to influence Russian politics is "at best limited" but could, paradoxically, be "decisive", with the US margin for error very small.

The absence of a long-term US approach to Russia, policy, which was supported by both parties, could end the US capacity to influence events in Russia and could even prove counterproductive if it were to

Vice President Al Gore (left) talks to Jurek Martin

ignite Russian nationalism.

It would be wrong "to let small and medium sized problems put the whole relationship at risk". Thus it was "obviously self-defeating" for Congress to consider cutting 20-30 per cent from the Nunn-Lugar funding for missile dismantling or large amounts from US assistance to make

Beijing, Seoul nearer deal on aircraft programme

By John Burton in Seoul

China and South Korea have narrowed differences on their proposed joint 100-seat aircraft programme, said the trade and industry ministry in Seoul.

The disagreements between Beijing and Seoul, which mainly involve the location of production facilities, headquarters and design centre, have contributed to a delay in selecting a European or US technology partner for Asia's most ambitious aerospace project.

Aviation Industries of China and Samsung Aerospace, which is heading a 14-member Korean consortium, have agreed in principle to split production between the two countries.

But it remains uncertain how production will be allocated. Korea is seeking a 50-50 division in work, while China

wants to assemble at least two-thirds of the aircraft because of greater demand in its domestic market.

China is expected to order 200-250 of the medium-sized commercial jets between 2000 and 2020, against 100 for Korea. Foreign orders would be divided evenly between China and Korea, under the Chinese proposal.

The headquarters will be in a third country, possibly Hong Kong or Singapore, where it is easier to raise capital for the \$1.2bn programme than in Beijing or Seoul.

The design centre will be located in whatever western country is selected to provide technology. Boeing and McDonnell Douglas of the US are competing separately for the project, against a European consortium consisting of Aérospatiale, British Aero-

space, Daimler-Benz and Alenia of Italy.

Korean officials hope a final decision on the production facilities will be concluded before Chinese President Jiang Zemin visits Seoul next month. A quick settlement will also prevent the project's schedule slipping.

The formal establishment of the Sino-Korean joint venture and selection of a western partner had been planned by the end of this year, with aircraft development to be completed by early 1998. Trial test flights are scheduled to begin in mid-1999 and initial production by late 2000.

The Chinese and Korean partners will each take a 35 per cent stake in the project, with the western partner receiving 20 per cent. The remaining 10 per cent will be offered to Asian airlines.

Inquiry into US newsprint producers begins

By Richard Waters in New York

The US Justice Department has begun an investigation into possible anti-competitive practices among the country's newsprint producers, echoing a similar review launched by the European Commission earlier this year.

The antitrust investigation, which is believed to be in its

early stages, follows a year of rapid price increases which have brought howls of anger from newspaper publishers. From \$425 a tonne 18 months ago, newsprint prices are set to reach about \$815 a tonne with the latest round of price increases, announced earlier this week.

The Justice Department said it was "looking at the possibility" that newsprint producers

had colluded to set prices. One newspaper executive said he had been contacted by antitrust authorities a month ago, but Champion International, a big producer, said it had received no request for information from the department.

North American paper industry analysts said the authorities' interest was not surprising, given the scale of recent price increases. Ms Kathryn

McAuley, an analyst at Brown Brothers Harriman, the stockbroker, said the inquiry followed lobbying from newspaper publishers, which represent a powerful business lobby. "Whenever you see prices move that much, if it's brought to the Justice Department's attention, they are not going to dismiss it" without investigating, she added.

The investigation comes

ahead of an election year in the US, when producers have traditionally looked to the greater demand for newsprint to raise prices.

Mr Robert Duncan, a paper industry analyst at Deutsche Bank in Toronto, said he did not expect the investigation to turn up evidence of price-fixing. "The industry is very, very careful to avoid discussion of pricing," he said.

Malaysian budget plans to cool property market

By Kieran Cooke in Kuala Lumpur

Malaysia says it will review the implementation of a number of multi-billion-dollar infrastructure projects and take steps to cool a rapidly expanding property market in order to tackle a widening current account deficit and moderate overall economic growth.

Mr Anwar Ibrahim, the deputy prime minister and minister of finance, announcing the coming year's budget, said yesterday Malaysia's economy was likely to grow 8.5 per cent in 1996, compared with 9.6 per cent this year.

He said a current account deficit forecast at M415.1bn (\$7.2bn) this year was a natural consequence of growth in a

fast developing country such as Malaysia.

The current account deficit has been viewed with alarm by many investors who fear Malaysia's economy is overheating. Mr Anwar forecast the deficit would come down only slightly in 1996.

Those who believed Malaysia was in economic and political crisis used the foreign media

as a source of information. Mr Anwar said, Capital imports associated with infrastructure development made up much of the deficit, he said. He did not detail what projects might be rescheduled.

Analysts say the government is clearly worried about overheating in the property sector. Mr Anwar said much of a recent rapid increase in house-

ing prices was caused by foreign purchases.

He announced a levy of M\$100,000 on foreign property purchases and heavy financial penalties for foreigners who sought quick resale of houses and apartments.

Mr Anwar said the country had to boost its services sector and could not depend entirely on manufacturing for growth.

As part of an effort to cut consumption spending, he announced a 25 per cent road tax increase for larger cars and a rise in credit card charges. Contributions made by employees to a compulsory state savings scheme were also raised. Individual income tax was cut, with the top rate coming down from 32 per cent to 30 per cent.

Tokyo consumer prices in biggest fall for 39 years

By Gerard Baker in Tokyo

Consumer prices in Tokyo recorded their largest fall for 39 years this month, although officials and economists dismissed the fall as a temporary phenomenon.

Prices in the capital, which are normally regarded as a reliable guide to the direction of future prices nationwide, dropped 0.8 per cent compared with a year earlier.

The main factor was a steep fall in the prices of foodstuffs. Fresh vegetable prices fell 13.2 per cent as the effect of a sharp rise in prices in October 1994 fed through to this year's figures. In October last year food supply was adversely affected by uneven weather conditions and prices rose steeply.

Excluding the volatile figure for foodstuffs, consumer prices fell 0.2 per cent, a figure that suggests the economy is experiencing milder but continuing deflationary pressures.

Nationwide, prices in September rose 0.2 per cent on a year earlier, up from a year-on-year decline of 0.2 per cent in August.

Economists expect prices to pick up gradually. "Over the coming months the weaker yen will dampen inflationary pressure, and prices will move towards stability and beyond,"

said Mr Dick Beason, senior economist at James Capel Pacific in Tokyo.

Other statistics published yesterday showed that industrial production declined in September, further evidence that the nation's economy remains stagnant. Factory output fell 1.7 per cent from the preceding month, as production of cars and other transport equipment slumped.

The fall brought the rate of decline for the third quarter to 2.3 per cent from the preceding three months. It was the first quarterly decline in nearly two years.

Output of transport equipment fell 7 per cent on the preceding month, driven lower by sharp falls in production of cars and trucks.

But officials at the Ministry of International Trade and Industry expressed optimism that the drop would be reversed in the next few months.

"Production continued weak in September but we are expecting the effects of brighter factors, like the new economic package and the yen's downswing against the dollar, to appear in the nation's output in the coming months," said Mr Harumi Takahashi, head of MITI's statistics and analysis division.

Chicago prepares to deal with Eurotrash

As trade in recyclables grows, Laurie Morse looks at the junk bonds with a difference

Euromarkets will soon be littered with "Euro rubbish" if the Chicago Board of Trade has its way. The 150-year-old exchange, which began as a grain market and is dominated by high-tech financial instruments, has launched a market for recyclable trash.

In the exchange's first transaction last week, paper giant Weyerhaeuser agreed to purchase 100 tons of old newspapers from the upstate New York village of Oswego for \$90 a ton. Weyerhaeuser intends to ship the load to a mill in Italy, where Oswego's old news will be turned into fresh newspaper stock for the Italian market.

Marketmakers on Chicago's Recyclables Exchange are currently offering to buy or sell 33 loads of old newsprint, two different grades of recovered plas-

tics, and several loads of recyclable glass.

Other recyclables apart from these three main materials are listed on a "miscellaneous" page on the exchange's electronic bulletin board. At present, two different entrepreneurs are offering to sell 100,000 lb of granulated rubber (old tyres) for 12 cents a pound, and half a ton of plastic used to seal shipping boxes is being offered at 2 cents a pound.

A kind of giant "flea market", the CBOT's electronic bulletin board for recycled materials is intended to introduce some quality standards and organisation into the \$5bn-a-year market in the US. With enthusiasm for recycling growing in US communities, and more manufacturers investing in mills to process recovered materials, a moderating factor

is needed to smooth out the boom-and-bust cycles of the recycling industry.

"The parallels at the CBOT with the grain markets 150 years ago are striking," says Mr Dan Kemna, manager of recycling for WMX Technologies, the international waste-disposal group.

There is still a lot of confusion in the recyclables markets, lack of standardisation, supply gluts and shortages, and volatile price swings. A central marketplace might be able to moderate the effects of some of those factors.

For CBOT officials, it was not hard to recognise treasure in the rubbish heap. Prices for old newsprint rose so high in June this year that a truckload of old newspapers became as valuable as a truckload of corn. Cities such as Toronto

and Los Angeles had to crack down on scavengers trying to pirate newspapers left on the side of the road for city recycling trucks.

Then, with a volatility rivaling the foreign currency markets, prices for old newsprint crashed from about \$120 a ton to about \$30 this week. Paper brokers say the crash was typical of a cyclical industry, but to commodity traders such price swings spell opportunity.

The CBOT does not expect immediate profits from the venture - companies are being charged just \$1,000 for a year's access to the recyclables exchange - but it sees a potential futures market in the making.

"The CBOT started out as a cash market," says Mr Patrick Arhorr, exchange chairman,

"We will try to add value here, and hope to trade futures and options contracts sometime down the line."

A few scrap business old-timers say the CBOT is introducing an unnecessary middleman into their industry, and predict the recyclables exchange will die from lack of use. They say if stable markets develop for recovered paper, glass, and plastic, as they have for scrap metal, spot jobbers will not need an exchange to locate buyers.

However, Mr Pete Grogan, the Weyerhaeuser executive who bought Oswego's old newsprint, says the exchange will be a valuable resource to a fibre-hungry global paper industry.

"The low-hanging fruit on the worldwide recycling tree has already been picked," says

Mr Grogan, "New mill capacity for 10m tons of recycled paper will come on line by the end of next year, and we will need to pick higher up in the branches to meet that demand."

For smaller municipalities which often find themselves at the mercy of local commercial haulers, the exchange will give a better indication of market conditions, and provide alternative markets.

Just having a listed market in Chicago could change consumer perceptions of what they throw away, says Ms Jennifer Goff, managing editor of Recycling Times Magazine.

"Right now, the general public thinks of recyclables as junk, but if they begin to think of these things as valuable commodities, that's when we'll begin to see a steady growth in recovered materials."

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NEWS: UK

Trans-national consortium wins TV licence

By Raymond Snoddy

The UK's fifth national television channel was awarded yesterday by Channel 5 Broadcasting after the Independent Television Commission rejected the programme plans of two of the four bidders for the licence.

The winning consortium is composed of MAI, the broadcasting and financial services group; Pearson, the media company that owns the Financial Times; the Luxembourg-based international broadcaster CLT; and Warburg Pincus, the US investment bank. Its bid of £22,000,000 (about \$34,500,000) a year for the licence was £14.6m lower than the highest offer.

Channel 5 Broadcasting will launch

the new service, which will include a new daily popular drama, news from Independent Television News and programmes for leisure and learning, to about 70 per cent of the UK population on January 1 1997.

Both UKTV, a consortium put together by the Canadian broadcaster CanWest, which bid £38.6m, and Virgin Television, which exactly matched the Channel 5 Broadcasting bid, were told they had failed the programme quality threshold - mainly because they had not offered enough high quality programmes "to cater for a wide variety of tastes and interests."

The schedules of both were heavily dominated in prime time by popular drama and entertainment.

Channel 5 Broadcasting and New Century, a consortium led by British Sky Broadcasting and Granada, which bid £2m a year, were the only bidders to satisfy all the ITC's requirements. Under the rules, the licence goes to the highest qualified bidder.

UKTV and Virgin, angry because their programme plans had failed to meet the quality threshold, said they were consulting lawyers to see whether the decision could be challenged in the courts.

Mr Robert Devereux, chairman of Virgin Television, said: "I think the decision is unjustifiable. We will be producing a document on Monday that rebuts it point by point."

Virgin, whose shareholders include

Associated Newspapers, publisher of the Daily Mail, and HTV, the ITV company, was particularly upset because ITC said it had a limited range of suppliers of both original and acquired programmes. It said: "We have 41 suppliers, twice as many as Channel 5 Broadcasting."

Mr John Fairley, UKTV chief executive, expressed surprise that it was criticised for not planning to show feature films when it wanted to show British-made programmes instead.

The ITC was particularly critical of UKTV, which it pointed out proposed to repeat 50 per cent of its output throughout the licence period.

Sir George Russell, ITC chairman, denied that the bidding process had

turned into a beauty parade. Exercising discretion on programme quality was "slap bang in the middle of our job", he said.

The award was another victory for Mr Greg Dyke, chairman of Pearson Television, who headed the Channel 5 Broadcasting bid. He had previously helped to revive the fortunes of TV-am to retain London Weekend Television's licence in the ITV auctions.

The British Video Association criticised the winning bidder's plans for returning about 4m video recorders likely to suffer interference from the Channel 5 signal. The BVA said the £55m set aside to tackle the problem was not enough.

Tory chairman sets out Euro-sceptic credentials

By Robert Shrimley, Lobby Correspondent

Britain is ready to be isolated in Europe to defend national interests, Mr Brian Mawhinney, the Tory chairman, said last night in a speech in the prime minister's constituency.

His words were seen as confirmation of the Conservative's intention to chart a more Euro-sceptic course and use the issue to put clear distance between themselves and Labour.

Mr Mawhinney's comments have added pertinence, coming prior to arrival at Chateaux tomorrow of President Jacques Chirac of France for a summit with the prime minister.

Among the subjects on the agenda are the timetable for a single currency, following the prime minister's growing doubt that it can become a practicality this century. Foreign Office sources said this

was likely to be the last meeting between the two men in advance of the next EU summit in Madrid in December.

President Chirac will be accompanied by his ministers for economic affairs, foreign affairs, defence and transport. All will hold bilateral meetings with their British cabinet counterparts on Monday.

Speaking to a party meeting in Mr John Major's Huntingdon seat, the party chairman derided comment from Mr Tony Blair, leader of Britain's opposition Labour party, that he would never allow the country to be isolated in Europe.

"True leadership is about facing the possibility of isolation if ultimately that is what our national interest demands. True leadership occasionally requires saying no when others want to move ahead."

"Being willing to be isolated - if all else fails - does not

equate with weak leadership," he added.

Mr Mawhinney said that Mr Blair's views would likely make him popular in other European capitals but not in the UK.

"He is prepared to sacrifice Britain's interests for the hollow cheers of those who are our competitors as well as our partners."

"The people of this country recognise that there is a fundamental he added."

Mr Blair will seize on Mr Mawhinney's comments in a speech in Glasgow today. He is expected to say the comments are further proof that the Tory party has "lurches to the right".

"As the price of unity they have surrendered the agenda to the right. His remarks were pathetic and immature and show they are incapable of governing in Britain's interests," he will say.



Brian Mawhinney: a "conflict between defending Britain's interests and a refusal to allow this country to be isolated."

Bank governor upbeat on growth

By Robert Chote, Economics Editor

Mr Eddie George, the governor of the Bank of England, said yesterday that he expected the pace of economic growth to pick up next year and that he was "not at loggerheads" with the chancellor on economic policy.

Mr George said at the British Chamber of Commerce in Tokyo that he expected the UK economy to record growth of between 2.5 per cent and 3 per cent in each of the next two years. This is marginally more upbeat than the governor's previous predictions.

He added that the Bank still expected underlying inflation - which excludes mortgage interest rates - to be above the target of 2.5 per cent or below, which the government has set itself in two years' time, unless interest rates rise in the meantime.

But the governor added that he was having a "narrow debate" with Mr Kenneth Clarke, the chancellor, about base rates.

He added that it was a technical debate about whether inflation could be reduced within the narrow range and added that he and the chancellor were not at loggerheads.

Mr Clarke meets Mr George on Wednesday for their monthly discussion on interest rates.

They are expected to leave rates unchanged, preferring to wait at least until after the publication of the Budget on November 28, before deciding on a change in rates.

Officials at the Bank of England will meanwhile spend next week putting the finishing touches to the latest inflation report which will be published in the following week.

This week's gross domestic product figures and quarterly industrial trends survey from the Confederation of British Industry were the last important pieces of information to be incorporated in it.

The "six wise men" who advise the chancellor on economic policy will publish their latest report next week. They are expected to warn against excessive tax cuts but to leave open the door for interest rate reductions if they are needed to boost the economy.

Pleasy to ponder, Page 8

UK NEWS DIGEST

Gas grid price increase set to be reviewed

British Gas is to review a price rise it wanted to impose in December on gas shippers which use its monopoly pipeline company.

TransCo, the British Gas division that operates the national gas grid, yesterday said it had "not capitulated" to demands by independent shippers to rescind the proposed rises, which averaged about 10 per cent.

But it will "revise" the increases after opposition from the shippers and a threat by Ms Clare Spottiswoode, director-general of the gas industry regulator Ofgas, to veto the rises.

Some shippers are suspicious that British Gas is trying to undercut the independents in the run up to the introduction in April of competition in the gas market.

There are 30 to 40 independents who use the TransCo pipelines, along with the supply divisions of British Gas.

Some shippers questioned how TransCo could propose a price increase, when the company is obliged by Ofgas to limit its annual price rises to the retail price index minus five percentage points.

TransCo says the rises are justified under the terms of the price formula. In a recent letter to Ms Spottiswoode, TransCo noted that Ofgas took part in four months of detailed talks with the company, during which Ofgas officials approved of the way in which the rises were calculated.

The company said it was surprised Ofgas only opposed the increase after representations were made to Ms Spottiswoode by the independents.

Some shippers this week claimed that Ms Spottiswoode overruled Ofgas staff as a result of their lobbying. But they contend that service from TransCo is so poor that no increases can be justified.

Robert Corrine

Siemens' plant contract awarded

The design and management contract to develop the first phase of Siemens' North Tyneside £1.13bn semi-conductor manufacturing plant, one of Britain's most prestigious new construction projects, has been awarded to Sir Robert McAlpine, in a joint venture with Hochtief, the German construction company.

McAlpine's success in winning the £180m plus contract comes only weeks after the company won the design and management contract for Fujitsu's £260m expansion of its County Durham microchip plant.

McAlpine yesterday said its expertise in building semi-conductor facilities had brought it contracts in England and Scotland worth more than £600m in total since it began working for Fujitsu in County Durham six years ago.

Mr Andrew McAlpine, north-east England director of McAlpine, said the joint venture with Hochtief, which has already worked for Siemens in the UK, represented good Anglo-German co-operation.

More than 1,500 people will be employed at the peak of construction. Mr Heinrich Hamann, the financial project manager of Siemens Semiconductors Group, said the timescale for the new plant was tough - to meet exceptional worldwide demand for semiconductors - but achievable.

The completion target is November 1996. Production is due to start by mid-1997. The plant will produce application specific integrated circuits (ASICs), used in mobile phones, telecommunications equipment, smart cards and multimedia applications. Its first two phases will employ 1,500 people.

Chris Tighe

More travel agents collapse

There has been a sharp increase in the number of British travel agents which have collapsed. In the three months to the end of September the number of failures rose by 46 per cent compared with the same period last year.

The Association of British Travel Agents (Abta) said that 35 travel agents had failed in the three months to the end of September, compared with 24 in the same period last year. A further seven agencies have collapsed this month.

Since 1989 the record year for failures was July 1992 to July 1993 when 123 agents collapsed; this eased to 97 the following year and fell again last year (July 1994-1995) to 74 failures.

Mr Keith Betton, head of corporate affairs at Abta, said that the seasonal bulge for failures had come earlier this year, in July instead of September, but he doubted whether the number of failures would equal those in 1992-93. The three months to September traditionally claim the highest number of failures since this is when travel agents have to settle their bills. The industry is not expecting any increase on the 10m summer holidays sold by travel agents this year, especially since prices for next summer's holidays are an average 10 per cent higher than this year.

Scheherazade Dameshiku

Stadium choice in balance

Detailed plans for a British national sports stadium were yesterday presented to the Sports Council, which will next week announce its favoured site for the new 80,000-seat arena.

Five rival bidders have made submissions for National Lottery funds to build the complex, which would be the centrepiece for any future UK bid to stage the Olympic Games and other international track and field events.

The cities competing for the site are London, based on a complete reconstruction of Wembley Stadium, Manchester, Birmingham, Sheffield and Bradford. The Sports Council will announce its decision on Tuesday. Frontrunners are thought to be Wembley, Manchester and Bradford.

Tim Bart

Biotech company secures approval for first drug

By Daniel Green

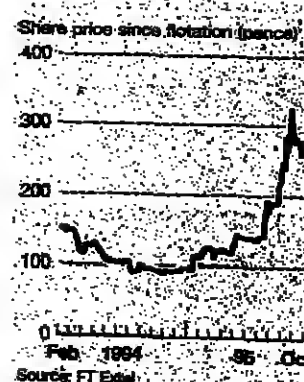
A member of the "brat pack" of UK biotechnology companies floated on the London Stock Exchange two years ago yesterday won its first regulatory drug approval. This sets the stage for a series of product launches over the next few years from the four biggest biotech companies.

Cambridge-based Chiroscience yesterday saw its shares rise in London 22p to 278 1/2p when its pain-killer Dextroprofen was approved in Spain, a move expected to lead to approvals elsewhere in Europe. The company was floated in 1994 at 150p.

The prices of several other "brat pack" companies have hit record highs recently as their products have passed the increasingly rigorous clinical trials required by medicine regulators.

Chiroscience is the brainchild of Mr Chris Evans, a microbiologist-entrepreneur, who remains a non-executive director and owner of 4.3 per cent of the company. Another of his companies, Celsis, was floated in 1993 at 100p a share,

Chiroscience



and recently hit a high of 140p.

Chiroscience specialises in making "chirally pure" compounds, separating a mixture of two molecules that are mirror images of each other. The idea is to use the mirror image molecule that is the true active ingredient, while discarding the other which may cause side-effects or slow the drug's action. Dextroprofen is a "right-handed" version of an older drug, ketoprofen, which is used worldwide. The new drug should be launched in Spain this year, and in the rest

of Europe next year or early 1997.

The drug could have world sales of £75m a year, according to pharmaceutical analysts at Lehman Brothers, the securities house. Chiroscience will receive royalties on the sales, having sold marketing rights to an Italian company Menarini.

Chiroscience hopes its next product to be approved internationally will be levobupivacaine, a version of the anaesthetic bupivacaine, which should have fewer side-effects.

Product approvals from the rest of the youthful biotechnology sector could follow.

For example, Scotia, floated in 1993 at 200p and now trading at 617p, has two products being studied by regulators. They are a treatment for pancreatic cancer and for the nerve damage suffered by some diabetics.

British Biotech, floated in 1992 at 425p, could have a product approval in cancer treatment next year - its shares closed last night at 885p - while Celltech, which came to the market in December 1993, is unlikely to have its first medicine on sale until 1999.



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INTERNATIONAL COMPANIES AND FINANCE

Japan's engineers close to expectations at midway

By William Dawkins in Tokyo

Interim results from Japan's six leading heavy engineers and shipbuilders came in close to or slightly better than the market's expectations.

Three reported increased profits and sales over the six months to September though one, Sumitomo Heavy Industries, saw a tenfold increase in losses.

Several market trends underlie their performance: a revival in domestic demand for heavy machinery, which has in the past been an indicator of a rise in industrial investment; a growth in demand for power generating equipment in south-east Asia; and a continuing decline in defence orders.

The best profits performers

increased margins by cost-cutting, increased procurement of cheap imported materials, and the redeployment of staff from mature businesses, such as shipbuilding, to profitable diversifications.

The worst performers were more exposed to sectors still in recession, such as mass-produced light machinery, which was the case with Sumitomo, or lumbered with shipbuilding contracts priced at the bottom of the cycle, which was the case with Kawasaki Heavy Industries. It was KHI's first interim profit fall in three years.

Best of the bunch was Mitsubishi Heavy Industries, also the largest in the sector, with a 26.3 per cent increase in recurring profits - before tax and

JAPANESE HEAVY ENGINEERS AND SHIPBUILDERS

	Recurring profits (¥bn)	Change (%) year-on-year	Sales (¥bn)	Change (%) year-on-year
Mitsubishi Heavy Inds	79.17	26.3	1,067.8	6.7
Kawasaki Heavy Inds	8.06	-28.1	351.9	-6.4
Ishikawajima-Harima-Hi	11.22	3.3	365.5	4.0
Sumitomo Heavy Inds	2.061	94.0	108.7	-4.1
Hitachi Zosen	9.05	18.3	155.7	14.7
Wakai Shipbuilding and Engineering	1.23	-6.9	118.5	9.1

First half ended 1995

Ylms

Source: Companies

extraordinary items - to a record ¥79.17bn (\$778m).

It has upgraded its profits forecast to a 16.7 per cent rise for the year. MHI owes some of that to foreign exchange gains on the dollar's rise since early August, after its descent to a unprecedented low of ¥79.75 in April.

More important, MHI's machinery division - which sells both to domestic companies and east Asian power suppliers - led profits growth, with orders up 18.3 per cent in the interim period, twice the rate of increase of the overall order book.

Kawasaki Heavy Industries

had a similar experience. Its machinery orders rose 12.8 per cent, more than double the rate of orders overall, as did Hitachi Zosen, with machinery orders up 20 per cent, against a 4.2 per cent decline in the total order book.

Hitachi Zosen, which is forecasting a 12.6 per cent rise in recurring profits for the full year, after a 19.3 per cent rise at the interim stage, owes its better-than-average performance to successful diversification. Like many Japanese companies, it has moved surplus staff into affiliates, where their costs do not show in the group accounts.

As a result, Hitachi Zosen's sales and administration charges fell to 6.5 per cent of turnover, from 7.7 per cent in

the same period last year. Diversification into fields such as biochemicals, new materials and distributing pocket phones, are starting to contribute to profits, said Mr Peter Boardman, analyst at UBS Tokyo.

The laggards expect to catch up by the end of the year. Sumitomo revised up its break-even forecast by the end of the year, to a ¥1bn profit, on the strength of increased cost-cutting and greater overseas procurement. KHI, meanwhile, says it will turn its interim profit decline to a 12.2 per cent increase by the year end.

That, however, is on the assumption, made by all six, that the yen will hold at something near its present rate of about ¥100 to the dollar.

Wella shares dive on profit warning

by Wolfgang Münchau in Frankfurt

Ordinary shares in Wella, the German haircare and cosmetics group, yesterday plunged 13.3 per cent to DM380 after an exceptionally blunt profit warning in which the company detailed a whole series of problems, including "management error" in one of its foreign divisions.

Wella preference shares fell by 14.7 per cent to DM380.

Yesterday's developments came a month after the resignation as chairman of Mr Peter Zühlsdorff, who left over "irreconcilable differences" with the majority family owners. The resignation of the former chairman has led to confusion among investors about the company's future strategy.

Before Mr Zühlsdorff's resignation Wella shares had traded at about DM1150.

In its profit warning, the company said the "results would be significantly below those of the previous year". This was followed by a barrow analysis of problems in various business areas and company operations.

Wella conceded that the concentration of its European production operations has "led to unforeseen temporary difficulties", including higher manufacturing costs through outsourcing of production, and higher finance and storage costs.

The company also reported difficulties in China, where "the loss will exceed revenues". In Russia, the company suffers from "bad debts, excessive inventories, an overblown administration and faulty structures in the area of logistics".

The problem in the various markets and countries were compounded by the appreciation of the D-Mark, according to the statement. The weakening of the Italian lira, the peseta, sterling and the US dollar had an accumulated revenue effect of more than DM100m (\$71.3m) as of September 30.

In 1994, Wella announced a 19 per cent rise in net profits to DM126.5m on sales of DM3.4bn. The company, which until recently was widely considered to be among the most rock-solid in its sector, said it expected profits to increase significantly again next year.

The management does not intend to cut dividends this year, which in 1994 came to DM13 per ordinary share and DM14 per preference share.

The company also suffered from an "unexpectedly large collapse" in the UK market, a result of a weak demand and strong competition, although it expects to return a profit in its UK operations in 1995.

In the US, Wella was forced to change its distributors "because of structural changes in the market and because of mergers among competitors". This had resulted in a loss of revenue, which the company will not be able to recover during the remainder of the year.

Sluggish sales behind setback at Shiseido

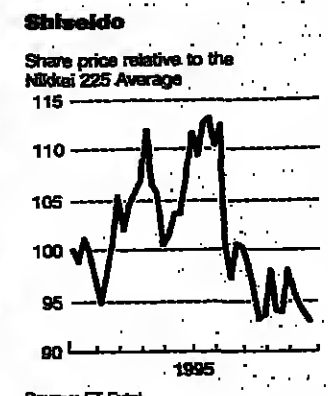
By Eniko Terazono in Tokyo

Shiseido, the leading Japanese cosmetics maker, posted its first interim profit fall in three years due to sluggish sales especially in its luxury line.

The company's unconsolidated recurring profits for the first half to September fell 6.3 per cent from the previous year to ¥14.5bn (\$146.4m) on a 5 per cent decline in sales to ¥147bn. After-tax profits declined 6.2 per cent to ¥7.3bn.

Sales of cosmetics fell 7.4 per cent to ¥130.2bn due to sluggish consumption stemming from the prolonged recession. Revenue from toiletry items such as soap and shampoos fell 2.7 per cent to ¥44.5bn while sales of salon products, foods and drugs fell 4 per cent to ¥12.8bn.

The company faces further pressure from the structural changes in the cosmetics market as an increasing number of supermarket chains have started to discount products. Cosmetics makers have started to increase products for their low-end cosmetics line for the bulk retailers.



Source: FT Data

low-end cosmetics line for the bulk retailers.

Sales and profits for the full year to next March are expected to fall for the first time since 1987. Shiseido expects recurring profits to drop 6.8 per cent to ¥30.8bn while sales are forecast to fall 3.5 per cent to ¥138.6bn.

Although after-tax profits are expected to decline 2.5 per cent to ¥14.5bn, the company plans to maintain its dividend payment at ¥12.5 per share.

Johnson & Johnson bid war ends up in court

By Richard Waters in New York

Johnson & Johnson's hostile bid for Cordis, a maker of cardiovascular equipment, spilled over into the courts this week as the US healthcare company sought to overturn Cordis's anti-takeover defences.

The New Jersey-based healthcare giant said late on Thursday that it had challenged an arrangement

adopted by Cordis known as a "dead hand" pill.

Under this provision, which the company had revealed in the regulatory filing the day before, only Cordis's current directors have the power to amend its anti-takeover defences, even if they are removed from office.

If upheld by a court, this would prevent Johnson & Johnson from gaining control of the company, even if it

succeeded in having its own candidates appointed to the company's board. The company said the provision was "clearly invalid" under corporate law in Florida, where it is located.

Earlier this week, Johnson & Johnson moved to overcome a delaying tactic inserted by the Cordis board to hamper its approach to the company's shareholders.

Cordis instituted a provision

requiring at least 20 days' notice before Johnson & Johnson can solicit the support of other shareholders for its campaign to oust the company's directors.

The healthcare group formally registered its interest on Tuesday, setting the 20-day clock ticking. It also reiterated its intention of seeking support from other shareholders if Cordis does not accept its \$106-a-share offer.

COMPANY NEWS: UK

Upton & Southern loses £9.6m

By Chris Tighe

Upton & Southern Holdings, the Middlesbrough-based retail group which acquired the Reject Shop last year, incurred losses before and after tax of £9.6m on turnover of £30.4m in the year to July 29.

The figures underline how big a drain the acquisition of Reject Shop was for Upton by the time it put the operation into receivership in May.

The deficit, which compared to a pre-tax loss of £4.01m on turnover of £17.9m in the 78 weeks to July 31 1994, incorporated the £3.7m trading losses

of Reject Shop up to its receivership, a £5.06m write-off of Upton's investment in the subsidiary and about £250,000 for resolving other known contingencies and obligations.

Losses per share on a greatly increased capital were 8p (20.7p). No dividend will be paid.

"Virtually the whole loss was as a result of the Reject Shop," said Mr Ron Trenter, the former Texas Homecare chief brought in as executive chairman and chief executive in March. The acquisition was with hindsight, he said, a "horrendous mistake", which had

succeeded in having its own candidates appointed to the company's board. The company said the provision was "clearly invalid" under corporate law in Florida, where it is located.

Earlier this week, Johnson & Johnson moved to overcome a delaying tactic inserted by the Cordis board to hamper its approach to the company's shareholders.

Cordis instituted a provision

what has been done for years in this business.

Following its August debt restructuring and refinancing the group has net assets of about £1.5m. It also has £12m of tax losses to carry forward.

It is seeking a non-food retailing acquisition to substantially increase critical mass and operating performance. "We would go back to our shareholders and the market," said Mr Trenter.

The group is still involved in litigation with Mr Jeffrey Gould, its former chief executive, over his £70,000 claim for loss of contract.

NEWS DIGEST

S+V shares suspended at 100p

Dealings in shares of Sunset + Vine were suspended yesterday at 100p, a rise of 2p, as the independent television production company confirmed that it was still involved in discussions on a "substantial" acquisition.

The shares dropped 17 per cent to 100p in early September when a profits warning was accompanied by news that the group was in "advanced" merger talks. Directors merely said yesterday that the shares had been suspended "pending a future announcement".

Midland & Scottish

Midland & Scottish Resources, which operates the Emerald oilfield in the North Sea, reduced post-tax losses from £7.66m to £293,000 for the half year to the end of June.

The company said its long-awaited Spirit of Columbus floating production platform had been delivered to its Italian subsidiary in August. The reduction in losses was due to the charging of costs relating to the project against a provision set up in 1994.

Turnover dropped to £16.4m (£24.5m) as Emerald Field production diminished. Losses per share improved to 0.1p (4p).

Seaford in red

Seaford, the transport, warehousing and distribution group, was tipped back into loss in the six months to June 30 by the cost of selling its Netherlands-based subsidiary.

The £3.02m deficit compared with a profit of £220,000 last time. The loss on the sale was £225,000, while the profit and loss account included a further £1.54m of goodwill written off. The loss did not reflect the trading situation, the group said. There will also be a charge in the second half to reflect a reorganisation.

Turnover was up from £7.96m to £8.67m. However,

profits at operating level slid from £667,000 to £104,000, partly of losses abroad.

Losses per share of 4.5p compared with earnings of 0.3p.

Dean Corporation

Dean Corporation, the property services group which joined the Aim last month, turned over £316,323 in the six months to June 30. Pre-tax profit was £43,993, producing earnings per share of 0.21p.

The group said it hoped to pay a dividend next year.

During the period Dean bought two companies, J.C. Tripp and Protec Industrial Coatings.

Wakebourne losses

As indicated last month, Wakebourne, the computer services group, reported pre-tax losses of £366,000 for the half year to June 30 after exceptional costs of £409,000. Last time there were profits of £107m.

Mr Leslie Warman, chairman, said the result was unacceptable and forceful action was being taken including

rationalising the cost base and implementing new accounting and stock control systems.

Turnover edged ahead to £18.8m (£18.2m). Losses per share were 1.1p (3.4p earnings). The last dividend payment was in 1989.

Bluebird shares sale

Mr Torquil Norman, the chairman and founder of Bluebird Toys, has raised £2.24m by the sale of 660,000 shares at 34p, the company said yesterday.

Mr John Andrews, non-executive director, raised £1.15m by selling 333,108 shares at the same price.

River Plate offer

River Plate & General Investment Trust has received an approach from its manager, Jupiter Asset Management, which may lead to an offer.

The company is required to hold an extraordinary meeting on October 31 in order to put a winding-up resolution to shareholders, unless the directors have been released from this obligation.

BCH registers 30.7% decline in third term

By Tom Burns in Madrid

Banco Central Hispano, the weakest performer of Spain's big banks, reported third-quarter pre-tax profits of Ptas31.4bn (\$256.7m), 30.7 per cent down on the same period of last year, but said it expected to recover its earnings potential in 1996.

The results, which were in line with market expectations, reflected the banking group's continued effort to strengthen its balance sheet through large provisioning allocations, as well as a strong fall in extraordinary income.

Capital gains from asset sales and other non-recurring revenue fell by 58.6 per cent from Ptas46.4bn to Ptas19.2bn and helped push net attributable group profit down to Ptas22.7bn, 28.8 per cent lower than the Ptas32.5bn net profits after minorities posted at the third-quarter stage last year.

Net provisions totalled Ptas58bn, and a further Ptas25.5bn was set aside for depreciations. The allocations raised BCH's coverage ratio to 85 per cent, an impressive

improvement on the 70 per cent coverage a year earlier and lowered the ratio of non-performing loans by 2 per cent to 5.4 per cent, which is below the financial sector's average.

Shrinking margins and the combination of scant credit demand and a prudent lending policy brought the net interest revenue over the first nine months down by 8.9 per cent to Ptas186.6m.

BCH was, however, able to post an operating profit of Ptas56bn, 0.3 per cent up on last year's third-quarter outcome thanks to improved treasury and industrial portfolio income and to strict cost-cutting which lowered overall expenses by 2.9 per cent.

BCH now believes that a 100 per cent coverage for non-performing loans, and thereby the completion of a prolonged adjustment period, is achievable by the end of this year. Such a development would represent crossing a psychological threshold and set the stage for a return to profitability next year.

Peugeot Citroën surges to FF1.22bn at halfway

By John Riddling in Paris

Peugeot Citroën, the French carmaker, yesterday announced first-half profits of FF1.22bn (\$247.7m), almost 80 per cent higher than the FF688m recorded last year, but expressed frustration at the impact of currency movements in the European Union.

Condemning the "excessive and competitive devaluations of certain currencies, notably the Italian lira", and citing the downturn in the European car market, the group said its performance had been achieved by increased efficiency and an improved model range.

Sales during the period rose from FF783.8bn to FF836.43bn, while reduced costs prompted a stronger increase in operating profits from FF2.44bn to FF2.78bn. Financial charges fell from FF915m to FF707m, partly reflecting a reduction in debts. The company said that net borrowings had continued their steady decline, amounting to FF75.5bn at the end of June, compared with FF79.34bn a year earlier.

The group cited several important vehicle launches over the past year which have helped support sales and margins and improved its product mix. The new models include the Peugeot 806 and Citroën Evason monospace vehicles, new versions of the Peugeot

605 and Citroën XM, and two utility models. The new Peugeot 406 was recently unveiled at the Frankfurt motor show.

The French group also cited significant international projects, including an agreement with Proton of Malaysia for the manufacture of licensed vehicles. Peugeot Citroën said the accord was ultimately expected to result in production of 50,000 units a year.

In Europe, however, the company outlined gloomy prospects. "The third quarter continued to be marked by the absence of recovery in western Europe," it said. According to Peugeot Citroën, the French market is suffering from high real interest rates and taxes and a new series of government incentives for the car industry is not expected to have a significant impact before the end of the year.

The weak car market is proving a particular concern for Renault, Peugeot Citroën's domestic rival. Government plans to complete the privatisation of the public sector group have been delayed by its falling share price, reflecting the depressed state of the market.

To reduce its shareholding to a minority, the Conservative government is now thought to be considering the sale of a small stake of Renault's capital to a group of industrial partners.

NEWS DIGEST

Union Minière unveils revamp

Union Minière is launching a three-year industrial plan involving investments of BFR225m (\$764m) and job losses of 1,618 in Belgium and 212 in France.

The main profitability gains will be in zinc and copper refining at its Hoboken, Antwerp refinery. The programme will enable Union Minière to significantly improve its operating profits and return on capital employed. It said it would return the group to a profitable footing and give it the resources it needed to expand its international activities.

"If this plan succeeds, Union Minière will be back where it belongs, among the leaders in the non-ferrous metals industry," the group said.

AFP News, Brussels

Placer shows 33% improvement

Record gold output and better cost performance enabled Placer Dome to post third-quarter net profit of US\$24m, or 10 cents a share, up 33 per cent from \$18m, or 8 cents a share a year earlier.

Gold operating profit rose 40 per cent to \$77m and output was 535,000 ounces, up 31 per cent. Cash production cost averaged \$201 an ounce and average price realised was \$392 an ounce. Nine-month earnings were \$36m, or 15 cents a share, down from \$79m, or 33 cents, on sales of \$736m against \$668m. The decline was due to higher exploration expenses and a \$17m special charge. Nine-month gold output was 1,363,000 ounces, up 5 per cent from a year earlier, and average cost was \$215 an ounce. Average price realised was \$392 an ounce.

Robert Gibbons, Montreal

KPMG in accord with bank

The US firm of KPMG, part of the global Big Six accountancy group, has entered into an alliance with a boutique investment bank, KPMG Baymark, in order to provide clients with corporate finance services. Mr Mark Taffet, president of KPMG Baymark, is a former managing director of KPMG's corporate finance group in the US. KPMG Baymark is the holding company for two operations - KPMG Baymark Strategies and KPMG Baymark Capital.

The first will offer corporate recovery services while the second is a licensed broker-dealer. Under the current regulatory framework audit firms are prevented from acting as broker-dealers.

Jim Kelly, Accountancy Correspondent

Swedish ABB chief to step down

Mr Bert-Olof Svanholm has said he plans to step down as chief executive of the Swedish arm of ABB Asea Brown Boveri next March. He will be succeeded by Mr Anders Narvinger, currently executive vice-president of Swedish ABB in charge of power transmission and distribution.

Mr Svanholm is well known in Swedish industry through his chairmanship of Volvo - a position he took on after the vehicle group controversially abandoned plans to merge with Renault of France in December 1993 - and his chairmanship of the Federation of Swedish Industries. He has been chief executive of Swedish ABB since the group was formed from the merger of Sweden's Asea and Switzerland's Brown Boveri in January 1988.

Christopher Brown-Humes, Stockholm

Codan head denies wrongdoing

Mr Peter Zobel, chief executive of Codan, one of the two largest Danish insurance companies, has been ordered by the Finance Industry Supervisory Authority to unwind two private investments, which the supervisors consider to be unlawful. Mr Zobel denies any wrongdoing and says he expects to appeal against the order.

The supervisors say that two investments made by Mr Zobel's private company are in conflict with the Insurance Companies Act, which states that managers of insurance companies may not engage in speculative business on their own account.

The two investments which have run foul of the supervisors concern involve lending in low-interest Swiss francs for investment in high-yielding Swedish bonds. The deals were financed with the assistance of financial guarantees from Codan. Mr Zobel had in turn provided collateral for the guarantees.

The investments turned sour when the Swedish krona collapsed in November 1994, causing Mr Zobel's private company a substantial loss, but there was no loss to Codan.

Hilary Barnes, Copenhagen

Danisco to acquire CMB arm

Danisco, the food, beverages and packaging group, has signed a contract to acquire the flexible packaging division of France's CarnaudMetalbox. CarnaudMetalbox Flexible has about 700 employees and a turnover of FF761.7m (\$125.2m). The acquisition, which is dependent on a satisfactory result of an environmental investigation, will take employment in Danisco's flexible packaging division to about 2,000, turnover to about Dkr2bn, and give the group some 6 per cent of the European market.

Group sales by Danisco in the year ended in April totalled Dkr14.2bn (\$2.6bn), including sugar, distilling, food ingredients and packaging. The total sales by Danisco's packaging division, including paper and board, was Dkr3.64bn.

Hilary Barnes, Copenhagen

French property bank to refocus

Comptoir des Entrepreneurs, the specialist French property bank, predicted a return to profitability and payment of dividends in 1996. Mr Jacques Lebar, chairman, predicted the group would make losses this year of between FF600m and FF800m (\$102m to \$123m) and return to break-even during the second half of 1996.

He said the group would be reducing its loans by 15 per cent in the next three years and cutting its management costs by 30 per cent.

Mr Lebar said the group was withdrawing from property investment and would focus on three areas: loans to individuals, to business teams and certain property developers.

Andrew Jack, Paris

Moore buys stake in UNI-Tech

Moore, the Canadian information handling group trying to buy Wallace Computer for US\$1.4bn, has bought 25 per cent of UNI-Tech, a private Hong Kong-based computer services consultant which operates mainly in China and Taiwan. The price was not disclosed.

The two firms will introduce the first Asian-language electronic business forms to the Asia-Pacific market, including software products. UNI-Tech, with 65 professionals and offices in Hong Kong, Shanghai and Shenzhen, will adapt the products to Asian markets and provide distribution and support.

● Mitel, the Canadian telecommunications equipment maker, announced second-quarter net profit of C\$15m (US\$10.98m) or 13 cents a share, up from C\$2.9m or 2 cents a share a year earlier, on revenues of C\$149m against C\$144m. First-half earnings were C\$24.6m or 22 cents a share against C\$6.9m or 5 cents a share.

Robert Gibbons, Montreal

Onex to absorb Vencap Equities

Onex, Canada's leveraged buy-out specialist, is taking over Vencap Equities, an Alberta venture capital group, in a deal worth C\$265m (US\$187.4m). The Alberta government formed the venture in 1981 to diversify the province's resource economy and still holds a 31 per cent interest. The balance is held publicly.

Vencap's board turned aside several other offers to accept Onex's bid of C\$8.50 a share. The province will collect C\$174m for its equity and loans to Vencap. The public shareholders will get a total C\$82m. But Onex will get access to Vencap's C\$136m cash. Vencap's portfolio is valued at C\$141m covering investments in 36 Alberta-based companies.

Robert Gibbons, Montreal

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends Corresponding dividend
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COMMODITIES AND AGRICULTURE

WEEK IN THE MARKETS

Copper stocks rise halts rally

Copper's rally this week at the London Metal Exchange was halted yesterday by news of a bigger-than-expected rise in exchange warehouse stocks of the metal.

The three months delivery price, which had by Thursday's close recovered most of last week's \$80 fall, retreated to \$2,712.50 a tonne, down \$33.50 on the day but still \$29 up on the week, after the LME announced that stocks had risen by 8,475 tonnes to 190,550. Reserves in LME warehouses around the world have now grown by nearly 50,000 tonnes since the downward trend was reversed in mid-July.

Traders suggested that the latest addition to the stocks total resulted from the big premiums being paid for prompt supplies, which were attracting metal to LME warehouses. At yesterday's close the cash premium for "backwardation" over the three months delivery position was \$99 a tonne, down from \$113.50 on Thursday but \$19 up from the end of last week.

Mr David King, the LME's chief executive said last week that exchange authorities were closely monitoring the copper market to ensure that nothing untoward was occurring. But he added: "We are not overly concerned." At that time traders suggested that the backwardation was being driven out by awareness that there was a large requirement for cash supplies by operators wanting to close out hedges against earlier physical purchases.

Other LME metals followed copper's lead, with nickel and lead putting in the strongest performances.

Nickel's continuing rally was encouraged by further stocks falls, which this week amounted to 1,866 tonnes, or 3.5 per cent per month of the total. The three months delivery price touched a 24-month peak of \$9,030 on Thursday before closing yesterday at \$8,590 a tonne, up \$845 on the week.

Stocks movements were also supportive for lead. As the total fell by 6,000 tonnes, or 2 per cent, the three months price climbed to \$854.50 a tonne, up \$34 on the week but \$3.50 off Thursday's high.

At the London Commodity Exchange the main feature of the week was the widening of coffee's backwardation in response to concern about signs of a developing squeeze of immediately available supplies.

The November delivery position's premium over January futures widened from \$51 a tonne at the end of last week to \$134 at Thursday's close. Yesterday, however, squeeze fears were allayed to some extent by news of a fall in open interest (uncovered contracts) on the market and the November-January backwardation narrowed to \$105 a tonne.

The January position ended \$14 down on the week at \$2,315 a tonne, despite receiving support from reports that heavy rain was delaying the Vietnam harvest and had damaged the Costa Rican crop.

The latter was said to have lost between 5 and 7 per cent of its 1995-96 production, which had been forecast at about 3.3m bags (46kg each). "While this may seem a small amount of coffee, it will be significant in the current tight market situation," London broker GNI said in yesterday's issue of its Commodity report.

LCE cocoa futures were firmer, meanwhile, with the March position finally breaking through resistance at \$569 a tonne to end at \$567, up \$7 on the day and \$13 on the week. Traders told the Reuters news agency that a few operators were pressing the upside all week to break the resistance.

Richard Mooney

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (per tonne)

	Close	High	Low	Open
1000-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5
1600-9	1874.5	1874.5	1874.5	1874.5

PRECIOUS METALS

PRECIOUS METALS continued

(Prices from Amalgamated Metal Trading)

GOLD COMEX (100 Troy oz: \$/Troy oz)

interest (uncovered contracts) on the market and the November-January backwardation narrowed to \$106 a tonne.

The January position ended \$14 down on the week at \$2.35 a tonne, despite receiving support from reports that heavy rain was delaying the Vietnam harvest and had damaged the Costa Rican crop.

The latter was said to have lost between 5 and 7 per cent of its 1985-96 production, which had been forecast at about 3.3m bags (46kg each). "While this may seem a small amount of coffee, it will be significant in the current tight market situation," London broker GNI

FINANCIAL TIMES

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Saturday October 28 1995

The US versus the rest

October is a nervous month for Wall Street. It arouses a collective memory of the synchronised crash that reverberated around world equity markets in 1987. And for a brief moment on Thursday it looked as though something nasty might be on the way. Weakness early in the week turned into a dizzy slide in prices, compounded by the impact of computerised programme trading - the technological twitch that can make the difference between nervous and manic depression in the markets. A sinking Mexican peso added further to the unease, and the shock waves from the US were felt in London, Tokyo and elsewhere.

In the event it amounted to no more than a jolt. But the nervous behaviour is understandable enough, not least because the most aggressive buyers of equities continue to be the mutual funds. No one can be quite sure how the retail investors in these funds will react to a bear market. But if they feel the brunt of a crash, economic activity stands to be more heavily affected than when pension funds are in the front line, as in 1987. A negative wealth effect is more likely, when personal portfolios shrink, people tend to consume less and save more.

In the event the more significant news for the US economy was in the real world rather than the markets. The annualised 4.2 per cent rate of growth in the third quarter revealed yesterday by the Department of Commerce provided a clear signal that this year's slight hesitation in the US cycle is over. After a short period in which the world's leading economies have been moving broadly in sync, the US has worked off its excess inventory and is once again striking out on its own. Given the absence of slack in the economy, this was mixed news for bonds. With growth moving above its long-run trend potential, US short rates now seem more likely to rise than fall, while rates in Germany and much of Europe are still heading downwards.

Economic health

Also out of sync are the views of domestic and foreign investors about the general health of the US economy. Where Americans appear to believe that inflation has been fully tamed, there is evidence that international fund managers remain unconvinced. Many do not share the domestic optimism that dramatic cuts in the US budget will actually be achieved. For most of the year US long bond yields have been below comparable D-Mark yields. For those who feel that this reflects a lack of realism in US bond valuations, equities on Wall Street inevitably look overvalued too.

Then there is the vexed question

of the US productivity miracle. Many on Wall Street are convinced that a secular change has taken place in US industry. Capital investment, especially in technology, has been running at a high level; big companies in the automobile, computer and consumer durable industries that were ailing not so long ago have made a remarkable comeback against the Japanese; and there is everywhere evidence of improved competitiveness.

Dollar weakness

Foreign sceptics point out that the weakness of the dollar has had much to do with this renaissance. That points to a cyclical rather than a secular improvement. They see the improvement in labour productivity as a one-off consequence of corporate downsizing, of a similar kind to that under way in Britain.

At a more fundamental level it has been suggested that, because restraints on the international transfer of technology have declined, big productivity differentials between economies must primarily be a consequence of the differing quality of their workforces. Quality, in this instance, is a question of education. It is far from clear that there has been a surge in US educational standards sufficient to bring about the putative productivity miracle.

One curiosity of the debate is that it does not find an accurate reflection in the figures on the capital account of the US balance of payments. In the first half of 1995 foreign investors bought nearly \$40bn of US bonds, compared with \$35.6bn in the whole of 1994 and \$51bn in 1993. As for equities, foreigners have suddenly become enthusiastic, buying \$20bn in the second quarter of this year, compared with a net disinvestment of \$4bn in the first quarter and net purchases of \$1bn in the whole of last year.

Here we have some clues as to the events of the week and the differing perceptions of value in the markets. The large recent purchases of bonds almost certainly reflect buying by the Bank of Japan in its efforts to curb an overvalued yen and inject liquidity into a system which is hostage to the fortunes of troubled banks. In so doing, the Japanese are buoying up US markets; and the unexpected decline in US bond yields relative to D-Mark bonds looks, at least in part, to be an unexpected consequence of the bank bail-out. Meantime the foreign interest in equities looks like late panic buying by foreign fund managers who had missed out on Wall Street's bull market. When equities are driven by liquidity, bouts of nervousness are only to be expected.

Mr Eddie George, governor of the Bank of England, will have plenty to ponder on Wednesday morning as his dark blue Daimler speeds him to the Treasury for his monthly meeting to discuss interest rates with Mr Kenneth Clarke, the chancellor.

Not only is staff morale at the Bank fragile, but Mr George also faces an uncomfortable dilemma after the public retraction last month of his demand for higher interest rates. If inflation now falls, it suggests the Bank was wrong to demand higher rates in the first place. If inflation stays above target, it suggests the Bank caved in at the moment it should have stood firm. Neither outcome will be a great advertisement for its counter-inflationary tactics.

Mr Clarke has other things on his mind. Treasury ministers routinely claim each autumn that they are engaged in one of the toughest government spending negotiations. But this year it is not just waffle; the Treasury is struggling to discipline recalcitrant spending departments. With the government borrowing billions of pounds more than it expected, Mr Clarke can only unveil big tax cuts if spending is pared to the bone.

The looming Budget will cast a shadow over Wednesday's meeting. Most economists expect base rates to stay at 6.75 per cent until the Bank and the financial markets have had a chance to digest the Budget statement. The Bank has urged the chancellor not to push his luck on November 28. But having ignored its advice on monetary policy, it is not inconceivable he could do the same on fiscal policy.

Since Messrs Clarke and George last met, they have had disappointing news on inflation. The underlying rate - which excludes mortgage interest payments - rose to 3.1 per cent in the year to September. This was the highest for two years and well above the target of 2.5 per cent or below the target for 1997 and beyond. The jump in inflation also landed the chancellor with an unexpected bill for \$670m (\$1.06bn) to uprate social security benefits.

City and academic economists cannot agree where inflation is heading next. Of those polled regularly by the Treasury, 22 think inflation will be higher at the end of next year than it is now and 19 think it will be lower. Inflation has stayed as low as it has in part because wages are unusually subdued. But the 10 per cent pay claim by blue-collar workers at Ford, the carmaker, suggests pay pressures are not just a historical curiosity.

Disagreements about inflation are mirrored by uncertainty over economic growth prospects. Official fig-

Next month's Budget is casting a shadow over the outlook for UK interest rates and inflation, writes Robert Chote

Tense game of wait and see

ures showed this week that the non-oil economy expanded by 0.5 per cent in the third quarter of the year, a rate which has been sustained in the past without pushing up inflation. Growth has been stable at, or a little above, this rate over the past four quarters. But economists cannot agree whether it will now slow down or speed up.

Growth in the latest quarter was underpinned by a 0.7 per cent rise in output of services, which contrasted with a much weaker performance in manufacturing. This is not unusual. Over the past 15 years, growth in services has on average been a tenth of a percentage point higher each quarter than in manufacturing, and only half as volatile.

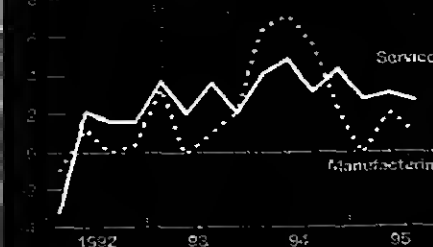
But the buoyancy of services is raising eyebrows in the City. It is difficult to square with falling high street spending, although Mr Geoffrey Dicks, economist at NatWest Markets, argues that the hot summer weather has encouraged people to consume "beach-type services" rather than shop-type services. Rapid growth in business and financial services seems plausible in the midst of a stock market takeover boom. But big gains in transport and distribution seem at odds with weaker factory output growth caused by falling export demand.

Mr David Mackie, economist at J.P. Morgan, argues that the service sector cannot continue to expand as quickly as it has if factory output growth remains subdued or slows further. This week's survey of manufacturers by the Confederation of British Industry suggested this is exactly what might happen. It showed order books weakening, output growth waning, investment increases slowing and business confidence dropping below its 1980s average.

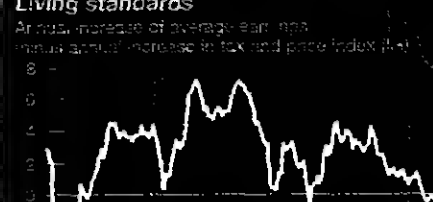
Andrew Buxton, chairman of the CBI's economic affairs committee, said the survey sent a "warning signal". The employers' organisation concluded that the next move in interest rates should be down. This came as no surprise. The CBI has urged that rates be cut, or that they should not be raised, on 30

UK economy: all eyes on the Budget

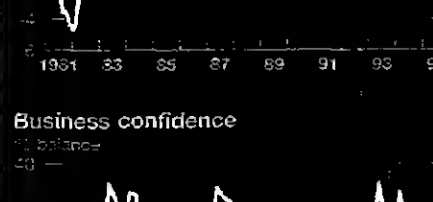
Output in manufacturing and services



Living standards



Business confidence



occasions since Britain left the European exchange rate mechanism in 1992. It has never demanded that rates go up.

Mr Mackie said the CBI survey did suggest the economy would end the year on a weak note. Companies have been making more than they

can sell and stockpiling the remainder. Output growth could slow markedly in the fourth quarter as these stocks are run down. According to Mr Dicks, however, manufacturers passed most of their excess stocks to wholesalers and retailers in the second quarter.

If the economy did slow sharply in the fourth quarter, Mr Clarke's reluctance to raise interest rates would look far-sighted and any giveaway budget would appear less irresponsible than it otherwise might. But any slowdown may prove short-lived and it may yet be necessary to push base rates higher.

Growth has slowed over the past year mainly for two reasons: a weakening in previously buoyant export demand and slower consumer spending growth because of higher taxes and interest rates. Many expect both effects to unwind.

Overseas demand grew increasingly rapidly last year until companies in Europe and the US found they had excess stocks and chose to satisfy demand from the storehouse shelf rather than UK suppliers. So, for example, UK car production for export rose 35 per cent between September last year and January 1995, only to fall 23 per cent in the following eight months. But the trend may be shifting back: British exports to North America jumped 19 per cent in September.

Consumer spending, too, could accelerate. It is hardly surprising consumer confidence is low, as pay increases this year have failed to keep pace with taxes and prices.

Mr Kevin Gardiner, economist at Morgan Stanley, estimates that an average earner with a £50,000 mortgage suffered a 1.6 per cent fall in income over the year to the second quarter, after taking into account changes in prices, taxes and mortgage payments. But the same earner's income should rise by about 4 per cent over the coming year, even if November's tax cuts are small.

If a combination of job creation, Budget tax cuts and windfalls from building society mergers finally revive the "feelgood factor", this would have knock-on benefits for the housing market and parts of consumer spending which depend on it, such as carpets and furniture. This in turn could revive investment in construction.

Having dropped his demand for higher interest rates over the summer, Mr George is not expected to renew his efforts to force an increase with the Budget just a month away. There is a perfectly respectable argument now for waiting to see what the chancellor does on fiscal policy before changing monetary policy again - especially as more may be revealed about the level of company stocks during the delay.

But given the length of time it takes base rate changes to have their effect, the Bank may yet regret its decision to back down if resurgent growth pushes inflation higher. After all, if the Bank is not prepared to tough it out and err on the side of caution, who will?

£30m in increased costs this year.

Such pressures suggest manufacturers and supermarkets may continue to press for fresh price rises - if consumers will swallow them. No one expects food prices to spiral out of control: the large chains are forecasting price inflation over this financial year of less than 4 per cent.

This may not be high enough to compensate fully for increased costs. But, with food and drink representing about a quarter of goods in the retail price basket, it may not be low enough to keep underlying inflation within the chancellor's target either.

Reporting by Gillian Tett, Roderick Oram and Neil Buckley.

Indigestible price rises

Food prices, which rose sharply over the summer, will have an important bearing on whether inflation rises or falls in coming months.

Optimists, like Mr Kenneth Clarke, the chancellor, blame the recent increases on the hot weather - and argue that seasonal food prices should fall again soon.

However, some City economists believe the drought was only one factor behind the increases. They think that cost pressures, which emerged last year could still feed through to the shops and prevent food prices overall from falling.

After swallowing hefty cost increases earlier in the recovery

without passing them on, some food processing companies appear increasingly resistant to further reductions in their margins.

But their costs are continuing to rise at an annual rate of about 15 per cent. In addition to the hot, dry summer, the weaker pound has raised the price of European agricultural products. Packaging costs have also soared - "faster than in living memory," says the chief executive of one food processor.

Food manufacturers have responded to this by demanding price cuts from their suppliers, or

trying to raise sales volumes through closer relationships with individual supermarkets.

But, in contrast to last year, some have also recently raised prices: Bank Hovis McDougall, the UK millers and Procter & Gamble, the consumer products group, for example, appear to have recently forced retailers such as J Sainsbury and Tesco to accept increases of about 5 per cent on many products.

Equally significantly, retailers have passed on some of those increases to consumers - in contrast to last year, when a supermarket

price war helped to keep inflation down. Although large supermarkets remain in cut-throat competition, as demonstrated by recent price wars in some other items such as pharmaceuticals, they are finding new ways of competing, such as offering loyalty cards, rather than just cheaper prices.

Manufacturers' margins remain under pressure. United Biscuits says it increased raw material price increases in the first half, will over-recover them in the second - but on balance will still end up swallowing some

MAN IN THE NEWS: Sir James Goldsmith

Knight's tilt at political power

Sir James Goldsmith is back. The Anglo-French billionaire is again throwing his weight around in the UK. In this latest adventure, however, it is not the assets of British companies which have caught his predatory eye; it is political power.

Sir James, 62, is the founder and head of the Referendum party, whose sole ostensible aim is to secure a national plebiscite on "the European issue" - whether there should be further transfers of national sovereignty to Brussels.

It aims to field candidates in every constituency, except those where the representatives of the leading parties have pledged themselves to vote for such a referendum in parliament. Its candidates will include minor celebrities such as Sir Alan Walters, former economic adviser to Baroness Thatcher.

Money is apparently no object. Sir James, whose net worth is probably well over £1bn (£887m), will at least match the funds available to the main parties. Colleagues say the campaign-war-chest will probably be £20m.

A national organisation, with headquarters in London's Belgrave and a series of regional offices, has been established. There are apparently more than 1,500 applicants to be Referendum party candidates. The party says it was swamped this week with phone calls from potential supporters after it published its manifesto in full-page advertisements in national newspapers.

It would be tempting to dismiss this latest escapade as an amusing diversion for a cranky plutocrat long obsessed with the European Union. But that would be to underestimate him. Sir James has already shown his ability to convert fear of EU centralisation into votes.

In partnership with the nationalist French aristocrat, Mr Philippe de Villiers, he last year created a "Euro-sceptic" party in France, L'Autre Europe. From a standing start, it won 12 per cent of the vote and secured the election of 13 MEPs - including Sir James - in June's elections for the European parliament.

"It was Jimmy who pulled it off," says one of his oldest friends. "It was Jimmy's dynamism and Jimmy's money."

Mr Goldsmith is not hostile to the EU "tout court". He would like it reconstructed into a trading bloc, with a free market internally and barriers to trade with the rest of the world. He is opposed to a single currency. But he favours a common currency, with member countries' currencies convertible into it at a fixed rate.

In his vision of Europe, policies on defence, the environment and diplomacy could also be discussed at EU level. But he is fanatical about maintaining national sovereignty, which he believes was undermined by the Maastricht treaty.

Obsessed with "reds under the bed" in the 1970s, he is now convinced that German Christian Democrats and Brussels "technocrats" are conspiring to create a European superstate. The British people, he believes, must be alerted to the dangers and asked to decide in a referendum what kind of EU they want.

These views are of course not unique to Sir James. A particularly volatile element in the Tory party, the sceptics, share most of them.

But their attitude is ambivalent. For one thing, they fear that Sir James's party may harm the Tories' already gloomy election prospects, even if it picked up only a tiny



percentage of the votes. "I have nothing to do with the Referendum party," said Mr Bill Cash, the Eurosceptic Tory and old friend of Sir James. "I want the Tories to win."

Privately, other rightwing Conservatives say they applaud Sir James's aims, but fear he may achieve precisely the opposite of what he wants. "If for argument's sake the Referendum party was wiped out in the election, that might be seen as a vote of confidence in the EU by the British people," says one.

At this stage, however, the Referendum party's electoral prospects are impossible to predict. In other countries, plutocrat politicians, such as Mr Ross Perot and Mr Silvio Berlusconi, are forces to be reckoned with. But the UK is different - for more than 200 years, real power has only been available to those prepared to join an established political party.

Sir James, according to his

friends, has been "hankering" after a role in British politics for decades, but never wanted to make the compromises joining a party would require.

In the 1970s he toyed with obtaining influence through media ownership. He came close to buying the Express group of newspapers and The Observer - and more than 15 years ago launched a current affairs magazine, Now!, which was a miserable flop.

His forte was in share dealing and takeover bids. In the late 1960s and 1970s he built up a UK foods group, Cavenham, which owned a host of well-known brands, such as Bovril, Carrs biscuits and Elizabeth Shaw's mince. But the big bucks came in 1980 when he turned his attention to Wall Street, where he was a pioneering corporate raider.

And his timing was impeccable. Just before the stock market crash in 1987, he liquidated his assets, leaving him with the resources of a Renaissance prince. He flies his private jet between mansions in France and Surrey and an estate in Mexico which is the size of a small country.

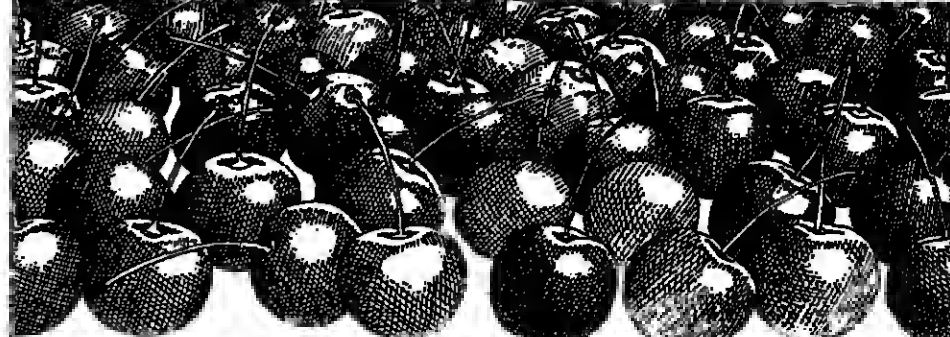
Now, however, his friends say he is "bored with money". "What he is interested in is real power," says one. When he entertains financiers at his Mexican court, his eyes glaze over. But when Mr Henry Kissinger arrives, he is in raptures.

In playing UK politics, he is using all the wiles he acquired as a takeover artist; a certain unease about him is already discernible in the circles around Mr John Major, the prime minister.

A friends believes there may be a touch of the "greenmailer" in his strategy - that he wants the government to "buy him off".

Sir James says his price for disbanding his party is that the two main parties commit to a referendum on Europe. But one of his friends is not so sure. "I think he's after something bigger, but I'm damned if I know what it is."

Robert Peston



BUSINESS INFORMATION



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FINANCIAL TIMES Information

Bernard Simon on the knots that will have to be untied if Quebec votes to secede from Canada

Celebrations in the working-class neighbourhoods of east Montreal will continue long into the night if Quebecois vote on Monday to transform their province of Canada into an independent country.

But across town, in the upper-class suburb of Westmount, the mood will be just the opposite. Montreal's English-speaking elite will be gloomily pondering its future in the Republic of Quebec. Some may pack their bags.

Political scientists and economists have devoted considerable energy trying to predict how Quebec's secession might proceed in the event of a Yes vote in the referendum. They have sought lessons from break-ups elsewhere, such as Hungary's split from Austria in 1987, Norway from Sweden in 1905 and, most recently, Slovakia from the Czech Republic.

Canada would be the first established democracy - and by far the most sophisticated economy - to face an internal split. As a result, there are few answers on whether Quebec would go its own way quickly or slowly, peacefully or violently - or indeed whether it would succeed in breaking away at all.

"No one knows what will happen if Quebec secedes," is the blunt conclusion of Mr Robert Young, a political science professor at the University of Western Ontario who has written one of the most authoritative books on the break-up of Canada.

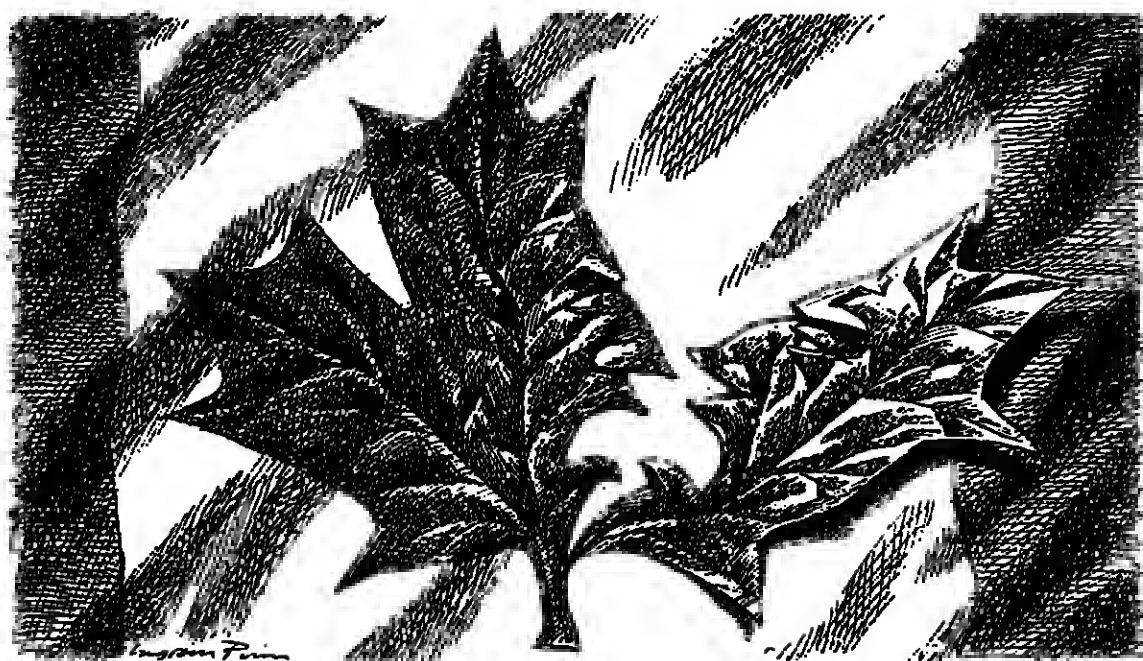
For one thing, a Yes vote on Monday is by no means assured. Although opinion polls show the separatists with a slight lead, federalists and financial markets remain cautiously optimistic that most undecided voters - and even some now planning to vote Yes - will opt at the last minute for the less risky course.

Nonetheless, the No camp has shown signs of panic. Mr Jean Chretien, prime minister, has added unscheduled speaking engagements, and been pressurised into offering constitutional reforms if Quebec stays in Canada. A big rally organised at the last minute by the No forces drew tens of thousands of people to downtown Montreal yesterday.

Even the separatists do not envision instant independence. But if they win, events could move quickly and unpredictably.

The House of Commons is due to convene as usual in Ottawa on Tuesday morning. Would government MPs interrupt proceedings to demand that members of the secessionist Bloc Québécois vacate their seats? Would the

Separatists hope to turn over new leaf



opposition Reform party, whose power base is in western Canada, claim that Mr Chretien, himself a Québécois whose parliamentary constituency is in rural eastern Quebec, has lost his mandate to speak on behalf of Canadians?

The future of the Canada-Quebec relationship would be determined largely by Mr Chretien's reaction to the vote. The government has set up a large but low-profile "unity operations" unit in Ottawa, but it has so far been preoccupied with referendum strategy and economic studies, rather than contingency planning for a separation.

Mr Chretien's attitude appears to have hardened since the referendum campaign began. He started by implying that the federalist side might not accept a slim Yes majority given the ambivalence of the question on the ballot, which links Quebec "sovereignty" to a new economic and political "partnership" with Canada.

But in a nationwide TV address this

week, Mr Chretien warned that Monday's decision would be "serious and irreversible".

Many political observers believe that Mr Chretien would have little choice but to call an early general election in the hope of undermining

Even the separatists do not envision instant independence. But if they win, events could move quickly

the referendum result. He would hope that Quebecois, faced with a massive flight of capital, high interest rates and a collapsing property market, would turn against the Bloc Québécois, which now forms the official opposition in the House of Commons.

Even if that happened, the existing pro-secessionist provincial government would still hold office in Quebec City

with four years to go before the next provincial election.

The separatist side has also toughened its stance in the past month. Its draft sovereignty bill envisaged independence negotiations with Ottawa lasting up to a year. More recently, separatist leaders have suggested that the talks might be cut short if they seemed to be leading nowhere.

One of the most intractable issues could be apportioning Canada's C\$580bn (£273.6bn) debt. Ottawa has long maintained that Quebec's share would be about 25 per cent, based on its population and gross domestic product. The separatists, however, have suggested a figure closer to 15 per cent, based on estimates of Quebec's share of the country's financial assets.

Unnumerable knots would need to be untied. What would happen to federal civil servants, office buildings and military bases in Quebec? Who would provide deposit insurance for

Canadian banks operating there? Would the General Motors assembly plant outside Montreal qualify for "local content" privileges under the US-Canada automotive trade pact? Which Quebecois would qualify for Canadian passports? The list goes on. Despite the complexity and scope of these negotiations, some political observers predict that they would be concluded quickly, on the grounds that uncertainty would hurt both sides, especially in financial markets.

But there are many reasons for expecting a lengthy and acrimonious process. According to Mr Stéphane Dion, a political scientist at the Université de Montréal, Canada would seek to capitalise on Quebec's mounting economic difficulties by stringing out the negotiations.

But frustrated secessionists might brush aside negotiations and legal challenges, and opt for a unilateral declaration of independence.

This strategy would carry heavy costs and high risks. Mr Marcel Côté, a Montreal economist, has described a unilateral declaration as a recipe for a disastrous bureaucratic mess. Where, he asks, would Quebec find the information to collect the taxes, and deliver the cheques, fees, subsidies and other services that the federal government now provides?

Such a declaration would also risk inflaming public opinion within Quebec. Many Québécois - including many francophones - feel as passionately about staying in Canada as the separatists do about leaving. Aboriginal groups have said categorically that they will not accept Quebec independence.

Some political scientists have suggested that the independence project could collapse, even if the Yes side does win on Monday. Quebecois might quickly become disillusioned if the separatists' promise of a smooth, painless transition proved to be false. The ruling Parti Québécois might fracture.

According to Mr Dion: "It is very likely that federalist forces in Quebec will agitate for a new referendum, or that the federal government will use this opportunity to call an election. The separatist electoral defeat will nullify the referendum victory."

For the time being, all this remains conjecture. Mr Dion notes that a Yes vote would at least help satisfy political scientists' intellectual curiosity about how a modern democratic state would manage a break-up. But many Canadians, including many Québécois, would prefer never to know the answer.

The rebels on the inside

Lionel Barber on the troubles within the European Commission

They make an unlikely pair. Mr Bernard Connolly, born in Manchester, is a brilliant economist fascinated by free markets, the Catholic Church and the fall of Mrs Thatcher. Mrs Ritt Bjerregaard is a Danish social democrat with expensive tastes, who delights in thumbing her nose at the establishment.

The thread tying Mr Connolly to Mrs Bjerregaard is that both have written books about life inside the European Commission. Both have landed in trouble for delivering what they consider to be home truths about the European Union. And both have raised uncomfortable questions about the Commission's willingness to tolerate - and its capacity to deal with - internal dissent.

This week, Mrs Bjerregaard, who arrived in Brussels as environment commissioner just nine months ago, was forced to abandon plans to release her Brussels diary, 2,000 copies of which were due to hit the streets in Denmark today. Instead she published a grovelling apology to colleagues and commissioners.

Mr Connolly, secretary (ish) Commission official overseeing the European Monetary System, is proving a harder nut to crack. He is planning court action to challenge his suspension without pay, following the publication last month of his book denouncing monetary union. This week, he picked up support from the staff union at the Commission.

It is tempting to put the two rogue authors in the same political bracket, but there are important differences.

Mr Connolly's *The Rotten Heart of Europe: The Dirty War for Europe's Money* is a devastating attack on the European exchange rate mechanism as a vehicle for reaching economic and monetary union. But his ranting style, heavy on xenophobia and conspiracy theory, dulls the impact of the book.

Mrs Bjerregaard's tome is more title-tattle than scholarly work. Her disparaging remarks about Chancellor Helmut Kohl of Germany ("disfranchised"), President Jacques Chirac of France ("lout") and Prime Minister Felipe Gonzalez of Spain ("sapped of energy") will be familiar to anyone with a television set.

Marginally more amusing are her accounts of manoeuvres among the 20 commissioners. Sir Leon Brittan, we hear, cared passionately about winning the largely ceremonial post of vice-president. President Jacques Santer comes across as a nice guy who is not quite up to the job.

In their defence, both Mrs Bjerregaard and Mr Connolly have cited the need to lift the veil of secrecy in Brussels in order to bring EU decision-making alive to the public. Their campaign slogan is openness and transparency.

A more sober interpretation is that Mr Connolly and Mrs Bjerregaard have simply exploited loopholes in Commission rules, or gambled on the unwillingness of the authorities to enforce them.

Mrs Bjerregaard, a political appointee of the Danish government, draws a commissioner's salary of more than £150,000 (£237,500) a year before tax. She began writing a regular paid column for a Danish newspaper without prior permission as soon as she arrived in Brussels.

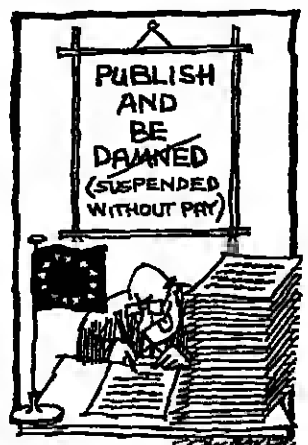
Article 157 of the treaty of Rome states: "The members of the Commission may not, during their term of office, engage

in any other occupation, whether gainful or not."

Mr Connolly joined the Commission in August 1978 as an international civil servant, and earns more than £70,000 a year before tax. Article 17 of the internal staff regulations states: "An official shall not, whether alone or together with others, publish or cause to be published without the permission of the appointing authority, any matter dealing with the work of the Communities (EU). Permission shall be refused only where the proposed publication is liable to prejudice the interests of the Communities."

Mr Connolly argues he is, in effect, doing the people of Europe a favour by warning them about Enn. But even those sympathetic to his cause wonder why he did not resign before publishing his book.

This raises the real lessons



of the affair: the crisis in the political culture of the Commission, which by implication extends to the whole EU.

Since the foundation of the Union in 1957, the Commission has acted as umpire, powerbroker and defender of the faith in a united Europe based on Franco-German reconciliation. This was a moral mission to which all employees were nominally committed.

The Brussels-based executive has fought off external challenges to its supranational authority. But it now finds itself trapped between the forces of once-dormant nationalism and a public either sceptical or indifferent to further integration. "What was the end of the Weimar generation," says one Brussels official.

Until Mr Connolly burst into print, the enemy had remained outside rather than within. This explains why the initial reaction to *Rotten Heart of Europe* was bemusement. How could anyone working inside the Commission not be committed to Enn?

The irony about Mrs Bjerregaard is that, when she was appointed, her plain speaking and her standing as a woman politician in a male-dominated institution were seen as assets. She is also a recent convert to the struggle against Euroscepticism.

The talk in the Brussels corridors this week was that Mr Jacques Delors - Mr Santer's imperious predecessor - would never have tolerated the likes of Mrs Bjerregaard. After all, Mr Delors once told a Greek commissioner he was not fit to run a taverna.

This is not Mr Santer's style: all his instincts point to compromise rather than confrontation. This week Mr Santer slapped down Mrs Bjerregaard: but seeing off Mr Connolly and his followers, who have embarked on a Eurosceptic crusade, is an altogether proposition.

Lord Hollick was in New York on business yesterday when the fax announcing the winner of the race to run the UK's fifth terrestrial television station was sent to the Channel 5 Broadcasting consortium in London.

As Lord Hollick, chief executive of the MAI group and a member of the consortium, listened down an open telephone line to London, not a word was spoken for 10 seconds as the fax changed slowly out. "Then there were raucous cheers," he said. "I didn't have to ask whether we had won."

It was the end of an intense battle for the last available commercial television channel using existing technology in any big European market.

Channel 5 Broadcasting, which was awarded the 10-year licence by the Independent Television Commission with a bid of £22m a year, will broadcast to around three quarters of the UK population.

UKTV, a consortium created by the Canadian broadcaster CanWest, and Virgin Television were both excluded on the grounds that their applications did not pass the programme quality threshold, although UKTV had offered more than £36m and Virgin the same as the winners. New Century, a consortium put together by British Sky Broadcasting and Granada, met the quality threshold, but offered £2m.

"It is a shot in the arm for British production," said Lord Hollick, whose company controls two ITV franchises, Meridian Broadcasting in the south of England and Anglia Television in the east. Channel

Tuned into quality

Raymond Snoddy on Channel 5 Broadcasting's winning bid for the new UK terrestrial television channel

Channel 5: maximum predicted coverage



Apart from a daily consumer programme, Channel 5 Broadcasting says it will be showing "hundreds of hours of new popular educational programmes aimed at the mature as well as the young".

Mr Greg Dyke, chairman of Pearson Television and a former chief executive of London Weekend Television, believes there is no point in trying to compete directly against hugely successful programmes such as ITV's *Coronation*

familiar with the schedules. There will, for example, always be a two-hour programme for children on Sunday mornings and an entertainment show on Saturday nights.

Defeated bidders say they were offering innovative entertainment that would have attracted large audiences and are sceptical whether Channel 5 Broadcasting will be able to sustain its more worthy promises.

It is remarkable that Channel 5 is starting at all. The first time the ITC advertised the licence only one applicant applied and bid £1,000 a year. The consortium that included Thames and Pearson was turned down in 1992 mainly on the grounds of insufficient financial commitment. Then the government caused further delays by reserving some of the Channel 5 frequencies for the launch of digital terrestrial television.

Even now - as investors become more excited about the commercial prospects of terrestrial television - Channel 5 Broadcasting faces formidable obstacles before the launch on January 1, 1997. An estimated 4m video recorders and satellite decoders will have to be returned because they are likely to suffer interference from the Channel 5 signal. This will

involve thousands of people visiting a total of 10m homes to check for interference. A further 4m homes might require a new aerial to be able to receive the new channel.

Apart from retuning costs of around £55m and the annual bill sum of just over £22m, the consortium expects to spend more than £110m a year on advertising. This compares to the total of £700m a year that ITV spends on programming.

The new Channel 5 operators expect that total cash requirement will be just over £200m - £300m on a worst-case basis - and that break-even could come in year three of the 10-year licence.

To be commercially successful Channel 5 Broadcasting will have to dislodge slices of the mass audiences of ITV and BBC and quickly move to a 5 per cent share of viewing in homes where Channel 5 can be received. They hope that they can then build the audience share to 10 per cent.

A former ITV sales director now working in satellite television believes the Channel 5 Broadcasting schedule will be welcomed by advertisers in search of high-income viewers. "This is fantastic news for advertisers," he said.

The launch will be a test of the power of "free" television. At about the same time, British Sky Broadcasting will be launching a 120-channel digital satellite service paid by subscription, and the government hopes broadcasters will launch more than 20 channels of digital terrestrial television. It's a challenge Mr Dyke relishes.

Pugwash scientists did influence missile policy

From Mr Frank Blackaby. Sir, In his otherwise sympathetic article ("Heroes and villains", October 10), Ian Davidson is, I think, rather too dismissive in his assessment of the influence of Pugwash scientists on world affairs. To take one example, he suggests that the Anti-Ballistic Missile Treaty was agreed more or less automatically once a general US-Soviet parity in nuclear weapons had been established. Not so. At the Glasboro meeting in 1967 Soviet premier Kossygin pounded the proposition: "Defence is moral; offense is immoral."

It was at a meeting of Pugwash scientists in December of that year that three leading Soviet scientists - Million-Shechikov, Arsimovich and Kapitsa - agreed that the development of ABM systems would be a bad idea. There is no doubt that they were subsequently influential in changing Soviet policy on this point. Raymond Garthoff confirms this: "Several senior Soviet officials have privately

identified this meeting as having made a significant contribution toward shifting Soviet policy away from support for ABM." More generally, Pugwash established an extensive network of scientists who did have some influence, direct or indirect, on policy, and who shared a common view that the constant competitive development of new nuclear weapons systems and warheads was not the best way to establish a stable security structure. When Gorbachev came to power, he was ready to listen to the arguments of what was in effect an international community of scientists.

I hope Ian Davidson does not subscribe to the common western military view, that the US "won the cold war" by pushing ahead with its military programmes and so bankrupting the USSR. There is unfortunately no room, in a short letter, to explain why this is bad history. Frank Blackaby, 9 Pentamoor Road, London SW8 1LD, UK

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "fac"). Translation may be available for letters written in the main international languages.

Definition of 'criminal' must be clarified

From Mr Patrick Worrall. Sir, In response to the article, "Russian 'criminal' list puts up for election" (October 26), I would like to suggest that as the country moves from totalitarian rule to democracy and capitalism, those who were once criminals now fit very well the new role as leaders.

Until a few years ago, any one within the former Soviet Union who embraced the ideals of democracy and capitalism was a criminal. Now, anyone who does not embrace those

ideals is condemned by the west as at the least disreputable. One must clarify the definition of "criminal" before denouncing the growth of the new democracy of Russia.

In the former Soviet Union, where capitalist ambitions were outlawed, the confusion of the government, and corruption of the government was important for the outlaw capitalist democrat to follow his ambitions. Shady dealings, pay-offs and rip-offs were a

necessary element of doing business. However, ambition is bred by capitalism and, as the size of their business grows and the totalitarian society opens up, chaos becomes an undesirable characteristic.

Fulfillment of business ambitions is now thwarted because the risks are unclear, and those criminal capitalists who once thrived on the corruption and confusion of the government now see the consolidation of the government as mandatory for the advance-

ment of their ambitions. For Russia, maybe those who were once the criminals understand best why and how to create an atmosphere where the population is most able to fulfil its ambitions. And if the "criminals" sell the country to the highest bidder, at least they were elected to do so.

Patrick Worrall, Financial Counsellor, Estonian Railway State Company, Pikk 36, Tallinn EE0100, Estonia

No sign of contracts liabilities in British Gas report and accounts

From Mr John Raife. Sir, We are warned by Oligas, the industry regulator, that British Gas has liabilities in the form of "take-or-pay contracts", which are large enough to threaten its long-term position "Regulator

warns on gas contracts", October 26). As a small shareholder in British Gas I have searched the 60 pages of the latest report and accounts for any reference to these liabilities. I have searched in vain.

What can be "true and fair" opinion attached by one of Britain's leading auditing firms mean if it allows these huge liabilities to go unreported? Whether other worthy projects the Accounting Standards Board is tackling it should

make the reporting of off-balance sheet liabilities an urgent priority. John Raife, 24 Devonshire Road, West Bridgford, Nottingham NG2 6EU, UK

Search for diary made by its rightful guardian

From Mrs Cicely d'Autremont Angleton and Mrs Anne Truitt. Sir, We write to correct what in our opinion is an error in Benjamin Bradlee's recently published autobiography, *A Good Life*, reviewed by Jurek Martin on October 7 ("Editor with style, guts and gusto").

The error occurs in Mr Bradlee's account of the discovery and disposition of Mary Pinchot Meyer's personal diary (in his book Bradlee says that it was he who made a search for the diary after Mary Meyer's death and that he twice bumped into James Angleton in the process). The fact is Mary Meyer asked Anne Truitt to ensure that, in the event of anything happening to Mary

while Anne was in Japan, James Angleton take the diary into his safe keeping. When she learnt that Mary Meyer had been killed, Anne Truitt telephoned from Tokyo, finding James Angleton at the Bradlees.

A search for the diary was carried out in Mary Meyer's house in the presence of her sister, Tony Bradlee, together with the Angletons and one other friend of Mary Meyer's. The diary was burnt some years later by Tony Bradlee, in the presence of Anne Truitt. Cicely d'Autremont Angleton, Anne Truitt, 4814-33rd Road North, Arlington, Virginia 22207, US

Reasonable definition emerging

From Mr John Donovan. Sir, As I am sure Mr Godfrey Chandler (Letters, October 24) knows, the word "pancassur" has yet to be clearly defined. A reasonable person might take it to mean "a financial organisation anxious to devise all

possible methods to divert funds from its customers to its insurance sales, and thereby increase its own earnings at the customers' expense". John Donovan, 17A La Pleta d'Ordino, Principality of Andorra

CURRENCIES AND MONEY

MARKETS REPORT

Franc rallies

By Philip Gawth

A sharp rally in the French franc was the main movement on the foreign exchange market yesterday, prompted by comments from President Jacques Chirac which appeared to indicate renewed commitment to the franc fort policy.

The franc's gains helped other European currencies recover recent losses against the D-Mark. It finished in London nearly four centimes firmer, at FF3.515, the lira also strengthened, following the failure on Thursday of a no-confidence vote. It finished at L1,138, from L1,143.

The weaker D-Mark, coupled with a strong third quarter GDP figure, which removed the prospect of any near term cut in interest rates, buoyed the dollar. After earlier slipping down to DM1.39, it recovered to keep its nose above DM1.40, closing at DM1.406, from

DM1.407. Against the yen it

closed at ¥101.7, from ¥101.8. The Canadian dollar finished slightly weaker against the dollar, at C\$1.3703, from C\$1.3655, ahead of Monday's referendum in Quebec, with traders taking to the sidelines until the result is known.

In Mexico, meanwhile, the peso recovered some of the losses suffered in the sharp sell-off on Thursday. The 24-hour peso was up 12 centavos, to P\$16.05, from P\$15.93.

Mr Chirac's comments, made in television interview, where he recommended the country to a programme of fiscal austerity, and said there was "no reason whatsoever to devalue the franc."

Analysts said the comments were noteworthy in that they represented his most unambiguous defence, since being elected president, of the franc fort policy. Previously markets had been concerned that the incompatibility of Mr Chirac's aims of reducing unemployment, while keeping the fiscal

Dollar

DM per \$

Yen per \$

S per £

DM per £

FF per DM

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

هكذا من أهل

Money Market Bank Accounts

Money Market Trust Funds

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on 1-844-171-1273/4378 for more details.

MARRIAGE FINDING NOTES

Picture was to contain pictures of married men and their wives. The pictures were to be arranged in a grid, with the names of the men and their wives written below them. The pictures were to be arranged in a grid, with the names of the men and their wives written below them.

Volunteers for the survey were selected from the following sources:

- 1. The local newspaper.
- 2. The local television station.
- 3. The local radio station.
- 4. The local community center.
- 5. The local church.
- 6. The local school.
- 7. The local government office.
- 8. The local business community.
- 9. The local medical community.
- 10. The local legal community.
- 11. The local academic community.
- 12. The local artistic community.
- 13. The local athletic community.
- 14. The local religious community.
- 15. The local cultural community.
- 16. The local entertainment community.
- 17. The local service community.
- 18. The local industry community.
- 19. The local agriculture community.
- 20. The local fishing community.
- 21. The local hunting community.
- 22. The local gardening community.
- 23. The local bird-watching community.
- 24. The local pet-keeping community.
- 25. The local travel community.
- 26. The local food community.
- 27. The local drink community.
- 28. The local fashion community.
- 29. The local beauty community.
- 30. The local health community.
- 31. The local fitness community.
- 32. The local sports community.
- 33. The local music community.
- 34. The local dance community.
- 35. The local theater community.
- 36. The local film community.
- 37. The local book community.
- 38. The local art community.
- 39. The local science community.
- 40. The local technology community.
- 41. The local engineering community.
- 42. The local architecture community.
- 43. The local design community.
- 44. The local writing community.
- 45. The local journalism community.
- 46. The local publishing community.
- 47. The local media community.
- 48. The local advertising community.
- 49. The local marketing community.
- 50. The local sales community.
- 51. The local customer service community.
- 52. The local support community.
- 53. The local training community.
- 54. The local development community.
- 55. The local research community.
- 56. The local analysis community.
- 57. The local evaluation community.
- 58. The local monitoring community.
- 59. The local assessment community.
- 60. The local review community.
- 61. The local audit community.
- 62. The local inspection community.
- 63. The local investigation community.
- 64. The local inquiry community.
- 65. The local enquiry community.
- 66. The local question community.
- 67. The local problem community.
- 68. The local issue community.
- 69. The local concern community.
- 70. The local matter community.
- 71. The local case community.
- 72. The local situation community.
- 73. The local state community.
- 74. The local condition community.
- 75. The local position community.
- 76. The local status community.
- 77. The local position community.
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The survey was conducted in a confidential manner, and the results were used for research purposes only. The survey was conducted in a confidential manner, and the results were used for research purposes only.

WORLD STOCK MARKETS

NORTH AMERICA

UNITED STATES (Oct 27 / US\$)

(4 per cent)

Dow Jones Industrial Average

S&P 500 Index

NASDAQ Composite

NYSE Composite

NYSE Mid-Cap

NYSE Small-Cap

NYSE Micro-Cap

NYSE Biotech

NYSE Energy

NYSE Financial

NYSE Healthcare

NYSE Industrial

NYSE Technology

NYSE Telecommunications

NYSE Utilities

NYSE Real Estate

NYSE Consumer Goods

NYSE Food & Beverage

NYSE Pharmaceuticals

NYSE Chemicals

NYSE Metals & Mining

NYSE Energy Services

NYSE Environmental

NYSE Aerospace & Defense

NYSE Transportation

NYSE Media & Entertainment

NYSE Retail

NYSE Services

NYSE Insurance

NYSE Banks

NYSE Capital Markets

NYSE Real Estate Services

NYSE Other

NYSE Total

NYSE Change

NYSE High

NYSE Low

NYSE Open

NYSE Close

NYSE Volume

NYSE Turnover

NYSE Market Cap

NYSE P/E Ratio

NYSE Dividend Yield

NYSE Beta

NYSE Correlation

NYSE Volatility

NYSE Liquidity

NYSE Leverage

NYSE Solvency

NYSE Profitability

NYSE Efficiency

NYSE Innovation

NYSE Sustainability

NYSE Resilience

NYSE Adaptability

NYSE Flexibility

NYSE Scalability

NYSE Portability

NYSE Transferability

NYSE Divisibility

NYSE Fungibility

NYSE Homogeneity

NYSE Interchangeability

NYSE Substitutability

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EUROPE

UNITED KINGDOM (Oct 27 / £)

(4 per cent)

FTSE 100 Index

FTSE 250 Index

FTSE SmallCap Index

FTSE MidCap Index

FTSE Biotech Index

FTSE Energy Index

FTSE Financial Index

FTSE Healthcare Index

FTSE Industrial Index

FTSE Technology Index

FTSE Telecommunications Index

FTSE Utilities Index

FTSE Real Estate Index

FTSE Consumer Goods Index

FTSE Food & Beverage Index

FTSE Pharmaceuticals Index

FTSE Chemicals Index

FTSE Metals & Mining Index

FTSE Energy Services Index

FTSE Environmental Index

FTSE Aerospace & Defense Index

FTSE Transportation Index

FTSE Media & Entertainment Index

FTSE Retail Index

FTSE Services Index

FTSE Insurance Index

FTSE Banks Index

FTSE Capital Markets Index

FTSE Real Estate Services Index

FTSE Other Index

FTSE Total Index

FTSE Change Index

FTSE High Index

FTSE Low Index

FTSE Open Index

FTSE Close Index

FTSE Volume Index

FTSE Turnover Index

FTSE Market Cap Index

FTSE P/E Ratio Index

FTSE Dividend Yield Index

FTSE Beta Index

FTSE Correlation Index

FTSE Volatility Index

FTSE Liquidity Index

FTSE Leverage Index

FTSE Solvency Index

FTSE Profitability Index

FTSE Efficiency Index

FTSE Innovation Index

FTSE Sustainability Index

FTSE Resilience Index

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ASIA

HONG KONG (Oct 27 / HK\$)

(4 per cent)

Hang Seng Index

Hang Seng 250 Index

Hang Seng SmallCap Index

Hang Seng MidCap Index

Hang Seng Biotech Index

Hang Seng Energy Index

Hang Seng Financial Index

Hang Seng Healthcare Index

Hang Seng Industrial Index

Hang Seng Technology Index

Hang Seng Telecommunications Index

Hang Seng Utilities Index

Hang Seng Real Estate Index

Hang Seng Consumer Goods Index

Hang Seng Food & Beverage Index

Hang Seng Pharmaceuticals Index

Hang Seng Chemicals Index

Hang Seng Metals & Mining Index

Hang Seng Energy Services Index

Hang Seng Environmental Index

Hang Seng Aerospace & Defense Index

Hang Seng Transportation Index

Hang Seng Media & Entertainment Index

Hang Seng Retail Index

Hang Seng Services Index

Hang Seng Insurance Index

Hang Seng Banks Index

Hang Seng Capital Markets Index

Hang Seng Real Estate Services Index

Hang Seng Other Index

Hang Seng Total Index

Hang Seng Change Index

Hang Seng High Index

Hang Seng Low Index

Hang Seng Open Index

Hang Seng Close Index

Hang Seng Volume Index

Hang Seng Turnover Index

Hang Seng Market Cap Index

Hang Seng P/E Ratio Index

Hang Seng Dividend Yield Index

Hang Seng Beta Index

Hang Seng Correlation Index

Hang Seng Volatility Index

Hang Seng Liquidity Index

Hang Seng Leverage Index

Hang Seng Solvency Index

Hang Seng Profitability Index

Hang Seng Efficiency Index

Hang Seng Innovation Index

Hang Seng Sustainability Index

Hang Seng Resilience Index

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AUSTRALIA

ASX 200 Index

(4 per cent)

ASX 50 Index

ASX 100 Index

ASX 200 Index

ASX 250 Index

ASX 300 Index

ASX 350 Index

ASX 400 Index

ASX 450 Index

ASX 500 Index

ASX 550 Index

ASX 600 Index

ASX 650 Index

ASX 700 Index

ASX 750 Index

ASX 800 Index

ASX 850 Index

ASX 900 Index

ASX 950 Index

ASX 1000 Index

ASX 1050 Index

ASX 1100 Index

ASX 1150 Index

ASX 1200 Index

ASX 1250 Index

ASX 1300 Index

ASX 1350 Index

ASX 1400 Index

ASX 1450 Index

ASX 1500 Index

ASX 1550 Index

ASX 1600 Index

ASX 1650 Index

ASX 1700 Index

ASX 1750 Index

ASX 1800 Index

ASX 1850 Index

ASX 1900 Index

ASX 1950 Index

ASX 2000 Index

ASX 2050 Index

ASX 2100 Index

AMERICA

Dow upturn on faster growth in GDP

Wall Street

Surprisingly strong GDP figures led to a volatile session that saw blue chips sharply lower in morning trading, but much stronger by early afternoon, writes Lisa Branstetter in New York.

In late morning trading the Dow Jones Industrial Average had fallen by nearly 29 points, before recovering 11 points to post a gain of 26.01 to 4,728.82.

The Standard & Poor's 500 index had turned a 3.51 point loss into a 1.50 point gain, bringing the index to 578.22, while the American Stock Exchange composite shed 2.30 to 513.83.

Volume on the NYSE came

to 253m shares. The Commerce department said that third quarter GDP grew by 4.2 per cent, much faster than the consensus estimate of 2.5 per cent growth.

Mr. Michael Metz, chief investment strategist at Oppenheimer & Co., said that contrasting signals about the economy were making investors nervous.

On the one hand, weaker than expected earnings reports from some prominent companies worried investors about future profitability, while the strong GDP figure had dampened hopes that the Federal Reserve might lower interest rates at next month's meeting of its open market committee. But the lower prices did

bring investors back into several sectors that had fallen in the past eight sessions, such as technology and financial companies.

The technology rich Nasdaq composite, which had fallen nearly 22 points since last Friday, added 6.78 to 1,024.33, and the Pacific stock exchange technology index climbed 1.4 per cent on gains made by several bellwether technology issues.

Microsoft added 1% at \$99.4, Intel was 1% higher at \$67.4, America Online gained 3% at \$74.4 and Hewlett-Packard rose 1% at \$92.5.

Financial shares also posted a strong rebound. JP Morgan, which is a component of the Dow, added 1% at \$77.4,

NationalBank was 1% higher at \$66.4 and Citicorp rose 1% at \$64.4.

Canada

Toronto was hit by more jitters against the Quebec vote, the TSX 300 composite index fell 18.60 to 2,297.57 at 1 p.m. as volume eased from 38m shares to 32.7m.

One of the worst fallers was Hemlo Gold Mines, down 8% at \$1.75 following Thursday's news of a crack in the mine shaft at its Golden Giant mine near Marathon, Ontario.

Latin America

Regional bourses steadied themselves after Thursday's

sharp falls, which had been precipitated by a decline in the Mexican peso.

MEXICO CITY had recovered some 2 per cent by midsession as the IPC index rose 44.84 to 2,232.02. The peso strengthened against the US dollar and currency traders suggested that Thursday's decline had been a speculative attack.

SAO PAULO followed the trend with the Bovespa index up 1.173 or 2.9 per cent at 41,775 by midsession. On Thursday the index recorded its lowest level since March.

BUENOS AIRES was also firmer by midday, and the Merval index, which had lost more than 3 per cent on Thursday, rose 8.47 or 2.3 per cent to 386.24.

Frankfurt still hopeful after recent Dax falls

Andrew Fisher surveys German revival prospects

German shares have disappointed investors recently. Having reached a record high in mid-September, the stock market has since moved downwards, postponing the hopes of the optimists. As the D-Mark has risen sharply, prospects for exporters have dimmed and shares have suffered.

But this is a month of unfortunate memories for traders and investors. As one German bank put it: "October does not have a good reputation." It is linked with the word "crash", says BfG Bank, harking back to 1987. Traders tend to be swayed more by mood than realism - "caution and not daring is the watchword".

Although confidence may have been seriously eroded, however, pessimism has not turned into panic. Markets have not tumbled alarmingly. The Dax index of 30 leading shares certainly began this week badly, with a 3 per cent fall in floor trading. But the market recovered its composure somewhat, though trading was highly uneven. The index ended yesterday at 2,112.01, a fall of 1.7 per cent on the week. This left it just 0.25 per cent over the year so far.

For the moment, therefore, the excitement of the summer has been forgotten. September 15's all-time high of 2,317 in the Dax was followed by renewed weakness in the dollar, and the index fell by 5 per cent in a few days. Overall, the market lost 2 per cent in September - traditionally a bad month for German equities - in spite of its new high during the month.

As usual after markets fall, there is no shortage of analysts saying that the time is ripe for picking up undervalued stocks. BfG (owned by France's Crédit Lyonnais) says that the market's decline has offered buying opportunities in such blue chips as Allianz (insurance), Siemens (electronics and electronics), Bayer (chemicals) and RWE (energy).

It also favours SAP, the business software company, which has been a rare star on the German market, although SAP's lustre has dimmed a little as profits growth has

slowed down from previous high rates. As Germany's lone high technology stock in the Dax-30, which it entered last month, SAP is still regarded by analysts as a company with a dynamic future, as it moves deeper into American and Asian markets and upgrades its products.

For the market as a whole, most analysts still generally expect the Dax to move to new highs - though not until next year. This year's seesaw bourse performance certainly shows how jittery financial markets have become in the face of a weakening dollar - now around DM1.40, though it has been lower, around DM1.55 at end-1994 - and marked soft-

half. Economic growth trends remain positive, although the strong D-Mark has postponed the expected acceleration. He says that cyclical stocks such as engineering and automobiles should benefit.

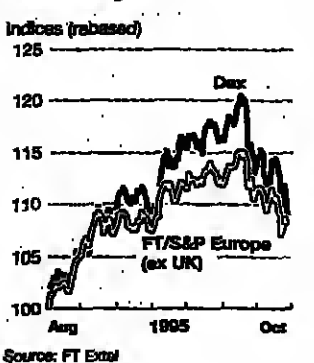
The reception given to the latest profits improvement at Volkswagen, although analysts found the figures skimpy and confusingly presented, shows the potential still existing in German industry's core. VW shares gained last week after news of the upturn in the first nine months, with new models and higher consumer spending expected to benefit the motor sector.

Although the currency has tended to dominate sentiment, Mr Martin Kohlhaussen, chairman of Commerzbank, believes that the overall economic outlook is not as often pictured. "The upturn in Germany is not in danger," he says. "The recession has been overcome, company profits are recovering clearly, inflation is under control, long-term interest rates are at a low level and exports are expanding despite the higher D-Mark, helped by strong expansion in world trade."

monetary conditions remain favourable and wage rises are more moderate next year, he adds, "the German stock market has the potential to rise by 10 or 15 per cent after the correction of the last few weeks". That would put the index at around 2,400 or slightly higher. Since 1993 is the year of the mammoth DM15bn Deutsche Telekom share sale - dwarfing this year's sizeable new issues by Merck pharmaceuticals (DM2.1bn) and Adidas sports equipment (now under way to raise up to DM1.5bn) - a buoyant stock market will come on cue for the banks handling this testing international issue.

But some caution is still in order, believes Mr Mark Howdle, head of European equity strategy at Union Bank of Switzerland. If the dollar does not recover to DM1.50 or more, the market is likely to continue performing disappointingly.

Germany



Source: FT Data

EUROPE

Paris cautious after Chirac TV address

The prime topic in PARIS was the previous night's television address by the French president, Mr Jacques Chirac, in which he committed himself to continuing the *franc fort* policy, with the reduction of the public deficit as his main priority.

Although there was a mildly cautious reaction to the address, the market did well to contend with intraday weakness on Wall Street, and closed with the CAC-40 index down 11.74 at 1,742.38, unchanged on the week. Turnover was FF3.5bn. Some technical analysts believed that the CAC was now likely to test the 1,711 level in coming sessions.

Peugeot closed at its lowest level since July 1993, down FF20 at FF601 as investors awaited first half results which were released moments after the close of business. These came at the lower end of analysts' expectations, showing a first half profit of FF1.21bn, against the previous year's FF988m.

As Renault fell another FF3.50 to FF147.50 there were serious doubts that the final round of privatisation would proceed because of persistently weak market conditions. This had meant that the shares were now trading at a substantial discount to last year's retail offer price of FF165,

FT-SE Actuaries Share Indices

Oct 27	THE EUROPEAN SERIES									
Weekly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Closes		
FF-Eurobank 100	1366.37	1365.18	1363.08	1358.56	1358.70	1361.24	1362.18	1363.08		
FF-Eurobank 200	1464.50	1464.67	1461.35	1473.25	1478.20	1477.50	1477.54	1481.07		
	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20			
FF-Eurobank 100	1374.41	1373.67	1363.11	1352.04	1350.47		1350.47			
FF-Eurobank 200	1499.34	1499.02	1490.61	1478.98			1500.55			
See item 10010502: Register	100	1365.51	1460.25	1466.10	1356.00	1356.00	1473.45	Partial		

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INVESTMENT TRUSTS - Cont.

Growth Energy Mktg. v.	86	-7	79
Warriors	82	-	80
Coyote Global S&P Co's.	82	-	85
Warriors	78	-	86
Growth High Inc. Ltd.	4	-	70
Warriors	360	-4	351
Growth International v.	274	-4	269
Growth Strategic	435	-	435
Growth	16	-	16
Growth Home	474	-1	50
Group Dev.	14	-1	19
Warriors	84	-1	167
NTR Japanese S&P Co.	272	-1	82
Henderson	1250	-1	125
Henderson High-Tech TV	24	-1	25
Henderson	340	-1	350
Henderson	718	-1	123

INVESTMENT TRUSTS[illegible]

Zero Debt 20K12	257	1
Falabella Euro Smlr	84	1
Falabella Euro Mde	100	1

[illegible]

Warrants	5	
GT Index	2181	51

[illegible]

Warrants	5	
GT Index	2181	51

14	SPACCOIT	Adv	2700	14	14
15	SPACCOIT	Adv	2700	15	15
16	SPACCOIT	Adv	2700	16	16
17	SPACCOIT	Adv	2700	17	17
18	SPACCOIT	Adv	2700	18	18
19	SPACCOIT	Adv	2700	19	19
20	SPACCOIT	Adv	2700	20	20
21	SPACCOIT	Adv	2700	21	21
22	SPACCOIT	Adv	2700	22	22
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24	SPACCOIT	Adv	2700	24	24
25	SPACCOIT	Adv	2700	25	25
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28	SPACCOIT	Adv	2700	28	28
29	SPACCOIT	Adv	2700	29	29
30	SPACCOIT	Adv	2700	30	30
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34	SPACCOIT	Adv	2700	34	34
35	SPACCOIT	Adv	2700	35	35
36	SPACCOIT	Adv	2700	36	36
37	SPACCOIT	Adv	2700	37	37
38	SPACCOIT	Adv	2700	38	38
39	SPACCOIT	Adv	2700	39	39
40	SPACCOIT	Adv	2700	40	40
41	SPACCOIT	Adv	2700	41	41
42	SPACCOIT	Adv	2700	42	42
43	SPACCOIT	Adv	2700	43	43
44	SPACCOIT	Adv	2700	44	44
45	SPACCOIT	Adv	2700	45	45
46	SPACCOIT	Adv	2700	46	46
47	SPACCOIT	Adv	2700	47	47
48	SPACCOIT	Adv	2700	48	48
49	SPACCOIT	Adv	2700	49	49
50	SPACCOIT	Adv	2700	50	50

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STANDARD BANK
Standard Bank, **F**
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GUIDE TO

Prices for the London
Financial Times Gros

Company classification
Share indices.

Listing mid-price as
lows are based on A

When stocks are not
indicated after the n

Symbols relating to
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on Monday.

Market capitalizatio
quoted.

Earnings used to cal
Price/earnings ratios
where possible, are

Yields are based on
of 20 per cent and a

Estimated Net Asset
price per share, and
(P/E - 1) to the current
charges at par value
situation occurs.

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